DOCUMENT RESUME

ED 345 637	HE 025 532

TITLE	The Federal Student Financial Aid Handbook, 1992-93.
INSTITUTION	Office of Student Financial Assistance (ED), Washington, DC.
PUB DATE	92
NOTE	722p.
AVAILABLE FROM	Division of Training and Dissemination, ROB-3, Room 4051, Office of Student Financial Assistance, U.S. Department of Education, 400 Maryland Ave., S.W., Washington, DC 20202.
PUB TYPE	Guides - General (050)
EDRS PRICE	MF04/PC29 Plus Postage.
DESCRIPTORS	Educational Finance; Eligibility; Federal Aid; Federal Legislation; *Federal Programs; *Federal Regulation; Federal State Relationship; Higher Education; Need Analysis (Student Financial Aid); Program Administration; *Student Financial Aid; Student Loan Programs; Work Study Programs
IDENTIFIERS	Carl D Perkins Voc and Appl Techn Educ Act 1990; Pell Grant Program; Stafford Student Loan Program; State Student Incentive Grants; Supplemental Educational Opportunity Grants

ABSTRACT

This handbook, consisting of an introduction and ten chapters, explains the 19992-93 procedures that higher education institutions must follow in administering the federal government's Student Financial Assistance (SFA) programs. Chapter One describes the organizational structure for areas of the Department of Education directly involved in the administration of the SFA programs as of March 1992. Chapters Two and Three cover general requirements that apply to all the SFA programs. Chapter Two also discusses the federal processing system. Chapter Three explains how schools and programs are determined to be eligible and general requirements for a school to participate in the SFA programs. The remaining chapters address specific program requirements. Chapter Four, on the Pell Grant program, explains how to calculate a payment and how to report the payment to the Department. Chapter Five provides general information, such as the funding process that applies to all three of the campus based programs. The specific requirements for each of these programs are covered in the next three chapters (Chapter Six: Perkins Loans; Chapter Seven: College Work-Study; Chapter Eight: Supplemental Educational Opportunity Grants). State grant programs are covered in Chapter Nine, and the Guaranteed Student Loan Programs are covered in Chapter Ten. Throughout the text recent changes to existing law and regulations are identified by a special graphic. (JB)

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ED345637

United States
Department of
Education

Office of
Student Financial
Assistance

The Federal Student Financial Aid Handbook, 1992-93

Introduction

HE 025 532

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Office of Educational Research and Improvement
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INTRODUCTION

The *Federal Student Financial Aid Handbook* explains the procedures that schools must follow in administering the Student Financial Assistance programs (which we will refer to as the "SFA programs"). Some of these procedures are required by law and regulation, while other procedures are necessary for the operation of the Federal processing system and the various reporting systems for each program. In this Introduction, we will give an overview of the SFA programs and the *Handbook,* review recent changes to the law and regulations, and provide a basic glossary of financial aid terms and acronyms.

INTRODUCTION

The SFA Programs

We use the term "SFA programs" throughout this *Handbook* to refer to the student financial aid programs administered by the Office of Postsecondary Education within the U.S. Department of Education. (All but one of these programs are authorized by Title IV of the Higher Education Act of 1965, thus they are frequently referred to as the "Title IV programs.")

In general, these programs provide funds to meet students' educational costs at the postsecondary level. Most of the programs are based on some form of financial need. The major reason for the differences in program requirements is the way the programs are structured. For instance, the programs differ in the type of aid given (grants, loans, or work-study). Thus, many of the regulatory requirements for Perkins Loans concern the use of promissory notes and repayment schedules, while the College Work-Study program uses time cards to document the hours worked by the student. Another difference is the way that funds are provided to the student. Because of the similarities in funding arrangements, the Perkins Loan, College Work-Study, and Supplemental Educational Opportunity Grant programs are usually discussed together as the "campus-based" programs, as explained below. Similarly, the Stafford Loan, Supplemental Loans for Students, and the PLUS Loan programs are grouped as "guaranteed student loan programs."

The Pell Grant is generally considered the first source of assistance to the student. Despite changes in recent years, the Pell Grant is still a relatively centralized aid program. Payment is based on the Pell Grant Index determined by the Federal central processing system. The student must submit a valid Student Aid Report (SAR) to the school to receive payment. The Pell Grant is said to be "portable" because the student may submit the SAR at any participating school and be assured of payment (if the student's SAR has an eligible Pell Grant Index). That is to say, Pell Grant payments are not limited to the available funds at the school. The Department provides an initial authorization to all schools that participate in the Pell Grant program, and increases that authorization (if necessary) to allow the school to pay awards for all eligible SARs that are submitted to the school during the award year.

INTRODUCTION

The maximum Pell Grant is expected to be $2,400 for 1992-93, and is limited by law to *no more than* 60% of the student's costs. Thus, the Pell Grant by itself is insufficient to meet a student's financial need. However, additional funds will usually be available from one of the following sources.

CAMPUS-BASED
CWS
Perkins
SEOG
PROGRAMS

There are three "campus-based" programs, so named because each school is allocated funds for the award year based on the anticipated financial need of its student body. The three programs consist of low-interest loans (Perkins), grants (Supplemental Educational Opportunity Grants — SEOG), and part-time employment administered through the school (College Work-Study). In the fall preceding the award year, the school submits to the Department a fiscal report for the past year and an application for funds for the coming year (FISAP). The school is allocated campus-based funds based on the data on the FISAP.

Campus-based funding was never intended to completely satisfy the financial need of all the school's students. In many cases, the campus-based programs complement already-existing aid programs at the school. The school is responsible for selecting the recipients of campus-based aid, and deciding the amount to be awarded. As with the other SFA programs, there are statutory limits on the amount of campus-based aid an individual student may receive. Most students who have remaining unmet need will be eligible for aid from one or more of the guaranteed student loan programs (see below).

Some schools that participate in the Pell Grant Program choose not to participate in the campus-based programs because of the administrative responsibilities involved. For instance, when a school acts as a lender in the Perkins Loan Program, or as an employer for the College Work-Study Program, it must comply with many of the same legal requirements (such as the Fair Debt Collection Practices Act and the Fair Labor Standards Amendments of 1989) that apply to a bank or a business.

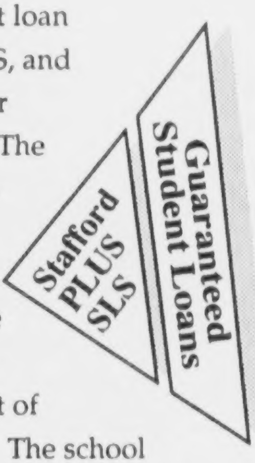
STATE
PROGRAMS
SSIG
BYRD
DOUGLAS

The Department also provides funds to State agencies for three other programs. The State Student Incentive Grant (SSIG) is a matching-funds program that encourages States to develop student aid programs. Many of the eligibility criteria are established by the State agency, although SSIG recipients must also meet the same basic eligibility criteria as for the other SFA programs.

INTRODUCTION

The Office of Student Financial Assistance also administers two scholarship programs (the Byrd Scholarship and the Paul Douglas Congressional Teacher Scholarship). These scholarship programs have different eligibility criteria than the other SFA programs, and are not based on financial need, but on merit. While the Federal requirements for these programs are described in this *Handbook*, you should refer to materials provided by your State agency for its requirements concerning student eligibility, program eligibility, and funding procedures.

The guaranteed student loan programs (Stafford, SLS, and PLUS) all have a similar funding arrangement. The principal for the loan is provided by private lenders.* These loans are "guaranteed" in the sense that the lender is reimbursed in the event of default or cancellation. The school certifies that a student is eligible for a loan amount on the loan application, which is then sent to the State guarantee agency for approval. If the loan is guaranteed by the agency and the lender approves the loan, the lender sends the loan amount to the school (in the case of a PLUS loan, the check is sent to the parent), and the school releases the proceeds to the student.



For Stafford Loans, the Federal government pays interest to the lender while the student is in school. In addition, the Federal government pays a "special allowance" to the lender that makes up the difference between the interest rate charged to the student (8 or 10%) and the prevailing market rate. The special allowance payments continue for the life of the loan.

Additional guaranteed loan funds are available through the SLS and PLUS programs, though at variable interest rates. The SLS is for independent students, and the PLUS loan is for the parents of dependent students. Loans from these programs can be considered part of the "expected family contribution," but cannot exceed the student's remaining need (cost of attendance minus other aid).

While the Department does not provide the actual loan funds to the student or parent borrower, the interest and special allowance costs for Stafford Loans are substantial. The Department also provides funds to the State guarantee agencies to cover the cost of defaulted loans.

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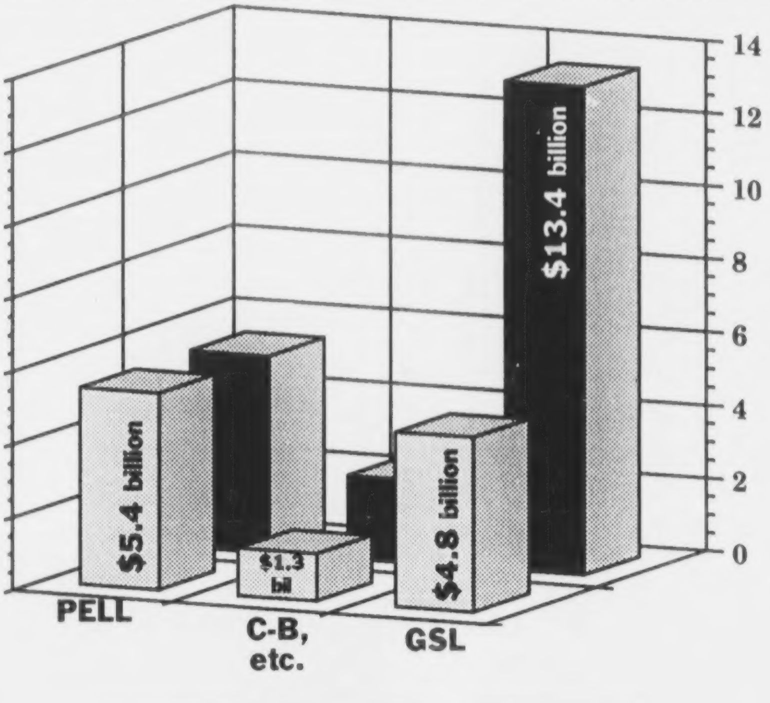
* In addition to banks and other traditional lending institutions, some schools act as lenders in these programs. In some cases, the guarantee agency can act as a "lender of last resort."

INTRODUCTION

The overall cost of the guaranteed loan programs to the Federal government for the current fiscal year (FY 1992) is estimated to be $4.8 billion, making it the second-largest SFA program in terms of appropriations. Only the Pell Grant Program is larger (approximately $5.4 billion).

The Federal costs for the guaranteed loan programs are limited to interest and special allowance payments, and other maintenance costs. Because lenders provide the principal that is used to make loans to students, the guaranteed student loan programs are the largest SFA programs in terms of actual aid provided to students (see chart below). The Federal budget for FY 1992 projects that nearly $13.4 billion will be provided to students in the form of Stafford, SLS, and PLUS loans.



FY 92 Appropriations Compared to Awards

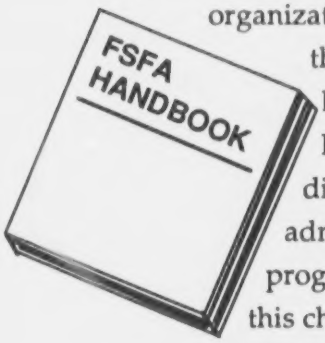
Note difference for GSL between amount *appropriated* (for interest, special allowance, and other expenses) and the amount projected for actual *awards* (capital supplied by lenders).

7

INTRODUCTION

The Handbook and Other Publications • • • • • • •

The *Federal Student Financial Aid Handbook* consists of ten chapters, covering the SFA programs from the point of view of the school's financial aid administrator.



The first chapter describes the organizational structure for those areas in the Department of Education that are directly involved in the administration of the SFA programs. Please note that this chapter is describes the organization as of March 1992. A major reorganization of the Office of Student Financial Assistance is being planned and will be announced later in 1992.

Chapters Two and Three cover general requirements that apply to all the SFA programs. Most of these requirements are based on the General Provisions regulations (34 CFR Part 668). Student eligibility requirements, such as citizenship, satisfactory progress, and financial need are covered in Chapter Two. Chapter Two also discusses the Federal processing system, including the Federal and non-Federal applications and the Student Aid Report that is sent to students who are applying for Federal student aid. Chapter Three explains how schools and programs are determined to be eligible (based on the Institutional Eligibility regulations, 34 CFR Part 600), as well as the general requirements for a school to participate in the SFA Programs, such as the use of the financial aid transcript, refund

Chapter One —
Organizational Structure

Chapter Two —
Student Eligibility and Financial Need

Chapter Three —
Institutional Eligibility and Administrative Requirements

Chapter Four —
Pell Grant Program

Chapter Five —
Campus-based Programs (Common Elements)

Chapter Six —
Perkins Loan Program

Chapter Seven —
College Work-Study

Chapter Eight —
Supplemental Educational Opportunity Grant Program

Chapter Nine —
State Grant Programs

Chapter Ten —
Stafford, SLS, and PLUS Programs

and repayment procedures, recordkeeping and administrative procedures, and so forth.

The remaining chapters of the *Handbook* (Four through Ten) are devoted to specific program requirements. The Pell Grant Chapter explains how to calculate a payment, and how to report the payment to the Department using Part 3 of the Student Aid Report.

Chapter Five provides general information, such as the funding process, that applies to all three of the programs known as "campus-based" programs. The specific requirements for each of the campus-based programs are covered in the next three chapters (Chapter Six — Perkins Loans, Chapter Seven — College Work-Study, Chapter Eight — Supplemental Educational Opportunity Grants).

State grant programs (SSIG, Byrd, and Douglas) are covered in Chapter Nine, and the Guaranteed Student Loan Programs (Stafford, SLS, and PLUS) are covered in Chapter Ten.

The *Handbook* summarizes most of the regulatory and statutory requirements for the SFA programs, but there are several related publications that address special topics of interest to financial aid administrators. The *Pell Grant Formula* and the *Congressional Methodology* booklets explain how the Pell Grant Index and the Family Contribution are calculated. The *Counselor's Handbook* discusses the application process and explains how to make corrections or other changes to application information. The *Verification Guide* describes the procedures to be used in verifying student and parent information on the application. These publications are developed by the staff of the Development Section in the Division of Training and Dissemination.

Note: If you have questions or comments about one of these chapters, please feel free to contact the writer-editor who prepared the chapter, as listed below. Please do not call the writer-editors to request copies of the *Handbook* or other publications. A limited additional supply of these publications is kept for distribution by the Federal Student Information Center. (Toll-free number: (800)4 FED AID)

Chapters One and Nine	Dave Rives (202) 708-9175
Chapter Two (and Pell Formula Book, Counselor's Handbook)	Dena Choice (202) 708-7115
Chapter Three (and Verification Guide)	Tamela Booze (202) 708-6216
Chapter Four (and Student Guide)	Lynn Trundle (202) 708-8178
Chapters Five through Eight (and Congressional Methodology)	Joyce Bowen (202) 708-8176
Chapter Ten	Molly Connally (202) 708-9177

Other reference materials for the SFA programs include a compilation of regulations affecting the SFA programs, and indexes of the publications. These publications are prepared through contract by the Information Section of the Division of Training and Dissemination.

While the *Handbook* and other related publications serve as comprehensive reference documents for financial aid administrators, there are other resources that serve more specialized needs. Several organizational units develop and distribute manuals or other materials describing operating procedures for the Recipient Data Exchange (RDE), the Electronic Data Exchange (EDE), the Electronic FISAP (report and application for campus-based program funds), and the Electronic DRAP (default reduction assistance for Perkins/NDSL). If you participate in one of these automated data systems, you will automatically receive these materials. Updates on changes in procedures and policy are provided to the financial aid community in the form of "Dear Colleague" letters throughout the award year.

Two publications covering procedures for fiscal officers were distributed to schools in 1989. *The Blue Book* (dated December 1988) describes accounting, recordkeeping, and reporting procedures for schools participating in the SFA programs. The Department's Payment Management System provides a *User's Manual* for the Automated Clearinghouse/Electronic Funds Transfer system, a "direct deposit" system which provides SFA funds to participating schools. (The current *User's Manual* is dated April 1989.)

Finally, the Office of Inspector General periodically revises its *Audit Guide* for the SFA programs. The *Audit Guide* gives an overview of the SFA programs from an auditor's perspective, and identifies areas of Federal program compliance that must be reviewed by the auditor. The most recent *Audit Guide* was issued in March of 1990.

INTRODUCTION

Statute and Regulations

The statutory authority for the SFA programs is found in Title IV of the Higher Education Act of 1965, as amended. The programs were most recently reauthorized by the Higher Education Amendments of 1986. The regulations directly affecting the SFA programs are numbered as follows:

34 CFR Part 600	Institutional Eligibility
34 CFR Part 653, 654	Douglas & Byrd Programs
34 CFR Part 668	General Provisions
34 CFR Part 674, 675, 676	Perkins, CWS, SEOG
34 CFR Part 682	Stafford, SLS and PLUS
34 CFR Part 690	Pell Grant
34 CFR Part 692	State Student Incentive Grant

We have identified recent changes to the law and regulations by using the following marker in the margin notes: ☑

Other ED Programs

There are many other programs, administered through the Department of Education, which provide financial assistance to students through block grants to States or funding through individual schools. One example of a program that provides funds through a State agency is the Christa McAuliffe Fellowship Program, which encourages outstanding teachers to continue their education or to develop educational projects or programs. Funds are appropriated through the Department's Office of Elementary and Secondary Education, and individuals apply through their designated State educational agency.

The Patricia Roberts Harris Fellowship Program provides fellowship and institutional support to assist minorities and women to undertake graduate and professional study in academic fields in which they have been historically underrepresented. Students apply directly to participating schools.

Students may obtain more information about these two fellowship programs, as well as on other programs administered by the Department by writing to:

Federal Student Aid Information Center
PO Box 84
Washington, DC 20044

The Department also provides student aid specifically for handicapped persons; however, this aid is administered by State governments and students must meet State eligibility criteria. You should encourage any handicapped students with whom you are working to contact their local or State vocational rehabilitation office to determine their eligibility for assistance. Each State vocational rehabilitation agency has a voluntary agreement with the respective State association of financial aid administrators which provides for the coordination of awards between aid from that agency and aid the student is receiving through the financial aid office at his or her school.

Several other Federal agencies offer student financial aid targeted to certain students. You are probably aware of veterans' educational benefits, tuition assistance payments offered through the JTPA programs administered by the Department of Labor, and the health loans and nursing scholarships offered by the Public Health Service. Detailed information about these programs is available from those agencies, or the State agency responsible for administering them. Assistance from these and other, non-federal, sources may affect a student's eligibility for SFA funds, as discussed in this *Handbook*.

GLOSSARY

Academic Year — This is a measure of the academic work to be accomplished by the student. The school defines its own academic year, but the Federal regulations set minimum standards for the purpose of determining SFA awards. For instance, the academic year at a term school must be at least two semesters, two trimesters, or three quarters. Unlike the award year, an academic year does not have to begin and end at the same time for all students. As an example, one student might enroll as a full-time student in September and complete one academic year of study in May, while another student might enroll as a half-time student in January and take twice as long to complete an academic year.

Application for Federal Student Aid (AFSA) — One of several applications that the student may use to apply for financial aid. The AFSA is printed by the U.S. Department of Education, and is a free form.

Award Year — The award year begins on July 1st of one year, and extends to June 30 of the next year. Funding for the Pell Grant and campus-based programs is provided on the basis of the award year — thus a student is paid out of funds designated for a particular award year, such as the 1992-93 award year or the 1993-94 award year.

Base Year — For need analysis purposes, the base year is the calendar year preceding the award year. For instance, 1991 is the base year used for the 1992-93 award year.

Campus-Based Programs — The Perkins Loan, Supplemental Educational Opportunity Grant, and College Work-Study programs. These three programs are called "campus-based" because the funds are administered directly by the school's financial aid office, which awards these funds to students using Federal guidelines.

Central Processing System (CPS) — The Department's processing facility for application data, currently located in Iowa. The CPS receives student information from the MDE processors, calculates the student's official PGI and FC, and returns the student's information to the MDE processor, which prints the Student Aid Report.

Cost of Attendance (also known as *Cost of Education*) — The student's cost of attendance includes not only tuition and fees, but the student's living expenses while attending school. The cost of attendance is estimated by the school, within guidelines established by Federal regulation. Note that the cost of attendance for the Pell Grant Program is different from the cost of attendance in the other SFA programs. The cost of attendance is compared to the student's expected family contribution to determine the student's need for aid.

Default — Failure to repay a loan in accordance with the terms of the promissory note. (The definition given in the regulations for the guaranteed student loan programs specifies a time-frame for default — see Chapter Ten, Section Four.)

Department (or ED) — Abbreviation for the U.S. Department of Education.

Estimated Financial Assistance — For the guaranteed loan programs, the amount of student financial aid the student can expect from Federal, State, school, or other sources, including grants, loans, or need-based work programs. The school must report this estimate when certifying a guaranteed loan application.

Expected Family Contribution (EFC) — The amount that the student's family is expected to contribute towards the cost of attendance, usually based on the family's income and assets. The EFC for the Pell Grant Program is the Pell Grant Index, while the EFC for the campus-based and Stafford Loan programs is the Family Contribution (FC).

Expected Year — For purposes of determining family income and expenses in the Pell Grant Program, the expected year is the first calendar year of the award year. For instance, income and expenses from January 1 - December 31, 1992 is "expected year" information for the 1992-93 award year. (For other SFA programs, the financial aid administrator has the discretion to use income and expenses for the twelve months of the award period — i.e., three months of non-enrollment prior to nine months of enrollment — rather than the calendar year.)

Family Contribution (FC) — The amount the student's family is expected to contribute towards the cost of attendance, for the purposes of the campus-based and Stafford Loan programs. The FC is printed on the front of the Student Aid Report.

Financial Aid Application — An application, filled out by the student, that collects household and financial information to be used to calculate the expected family contribution.

Financial Need — The difference between the student's cost of attendance and the expected family contribution.

>>> GLOSSARY <<<

Guaranteed student loan programs — The Stafford, SLS, PLUS, and Consolidation loan programs. Funds for these programs are provided by private lenders, and the loans are guaranteed by the Federal government.

Institution — A postsecondary educational institution. In this *Handbook,* we will use the terms "school" and "institution" interchangeably to refer to postsecondary educational institutions.

MDE (Multiple Data Entry) application — Any of several ED-approved applications that include a section of "common data elements" that a student may use to apply for Federal student aid. If the student checks the appropriate box at the end of the application, his or her information will be forwarded to the central processing system by the MDE processor. The MDE applications are the *Application for Federal Student Aid, Financial Aid Form, Family Financial Statement, Application for Pennsylvania State Grant and Federal Student Aid,* and the*SingleFile Form.*

MDE (Multiple Data Entry) processors — Need analysis systems that use ED-approved applications to collect student information, and use the PGI and FC calculated by the Federal central processing system to print an official Student Aid Report for the student. (Beginning with the 1990-91 processing cycle, the Federal application processor functions in the same way as any other MDE processor with respect to the central processing system.)

Need analysis — The process of analyzing the household and financial information on the student's financial aid application and calculating an expected family contribution (such as the Pell Grant Index and Family Contribution).

Need Analysis System (NAS) — A system (usually automated) that calculates an expected family contribution based on information the student reports on a financial aid application. A school may use the FC calculated by a need analysis system to award campus-based aid and Stafford Loans. Note that the MDE processors are a type of need analysis system that also forwards student information to the Federal processing system.

Overaward — Generally, any amount of campus-based aid or a guaranteed student loan that exceeds the student's financial need. (The overaward concept does not apply to the Pell Grant Program.)

>>> GLOSSARY <<<

Overpayment — Any payment of a Pell Grant, SEOG, Perkins Loan, or SSIG that exceeds the amount for which the student was eligible, whether the overpayment is the result of an overaward, an error in the cost of attendance or the expected family contribution, or any other eligibility criterion, such as citizenship or enrollment in an eligible program.

Pell Grant Index (PGI) — The amount the student's family is expected to contribute towards the cost of attendance, for the purposes of the Pell Grant Program. The PGI is printed on the front of the Student Aid Report. (The Pell Grant Index was formerly known as the Student Aid Index or SAI.)

Promissory Note — A legal document that the borrower signs to get a loan, in which the borrower promises to repay the loan, with interest, in specified installments. The promissory note will also include any information about the grace period, deferment or cancellation provisions, and the student's rights and responsibilities with respect to that loan.

Resources — Other student aid that must be taken into account to prevent an overaward in the campus-based programs, as defined in the regulations for the campus-based programs. (The term "resources" is used differently in the independent student definition, where it includes taxed and untaxed income, and other forms of non-parental support, as well as student aid.)

School — A postsecondary educational institution. In this *Handbook* ,we will use the terms "school" and "institution" interchangeably to refer to postsecondary educational institutions.

SFA Programs — The programs administered by the Office of Student Financial Assistance within the U.S. Department of Education; namely, Pell Grants, Supplemental Educational Opportunity Grants, College Work-Study, Perkins Loans, Stafford Loans, Supplemental Loans for Students, PLUS Loans, Income Contingent Loans, State Student Incentive Grants, Byrd and Douglas Scholarships, and Consolidation Loans.

Special Condition — A change in the family's situation, such as loss of employment or death of a parent, that affects the family's ability to contribute to the student's costs. If an independent student or the parent of a dependent student meets one of the special conditions defined by regulation, expected year income will be used instead of base year income to calculate the Pell Grant Index and the Family Contribution.

GLOSSARY

Student Aid Report (SAR) — The "output document" printed by an MDE processor, if the student has authorized the processor to send his or her information to the Federal central processing system for calculation of the PGI and FC. The SAR contains the financial and other information reported by the student on the financial aid application, as entered into the processing system. The student's eligibility for aid is indicated by the PGI and FC printed on the front of the SAR. (See the *Counselor's Handbook* for more information about the SAR.)

Verification — A procedure whereby the school checks the information the student reported on the financial aid application, usually by requesting a copy of the tax returns filed by the student and, if applicable, the student's spouse and parent(s). Many schools conduct their own form of verification. In addition, schools must verify students selected through the Federal central processing system, following the procedures established by regulation. The MDE processor will print an asterisk next to the Pell Grant Index (on the Student Aid Report) to identify students who have been selected for verification. (See the *Verification Guide* for more information.)

United States
Department of
Education

Office of
Student Financial
Assistance

The Federal Student Financial Aid Handbook, 1992-93

Chapter 1

Organizational Structure

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INTRODUCTION

Purpose of this chapter

This chapter covers the organizational structure of the divisions within both the Office of Student Financial Assistance (OSFA) and the Debt Collection and Management Assistance Service (DCMAS) within the Office of Postsecondary Education (OPE).

Other offices within the Department with which you may have contact

OPE is one of several offices within the Department with which your school may have contact. While the SFA programs provide aid directly to students, there are other offices throughout the Department that provide block grants to States and local education agencies that in turn administer these funds for education programs. These offices include the Office of Special Education and Rehabilitative Services (OSERS), Office of Vocational and Adult Education (OVAE), and Office of Bilingual Education and Minority Languages Affairs (OBEMLA). Two other offices you may have contact with are the Office of Inspector General (OIG) and the Office for Civil Rights (OCR).

Requesting funds through ED/PMS

When your school requests funds from the Department through the Pell Grant or campus-based programs, that request is handled through the ED Payment Management System (ED/PMS), which is located within the Office of Management and Budget/Chief Financial Officer.

Chapter organization

This Chapter is divided into two sections. Section One covers the divisions under OSFA and Section Two covers the divisions under DCMAS.

✓ **Pending Organization Change**

The information contained in Sections One and Two of this chapter describes the OSFA and DCMAS Division organizations as they existed at the time this *Handbook* went to print. However, a major reorganization is being planned and will be announced later in 1992.

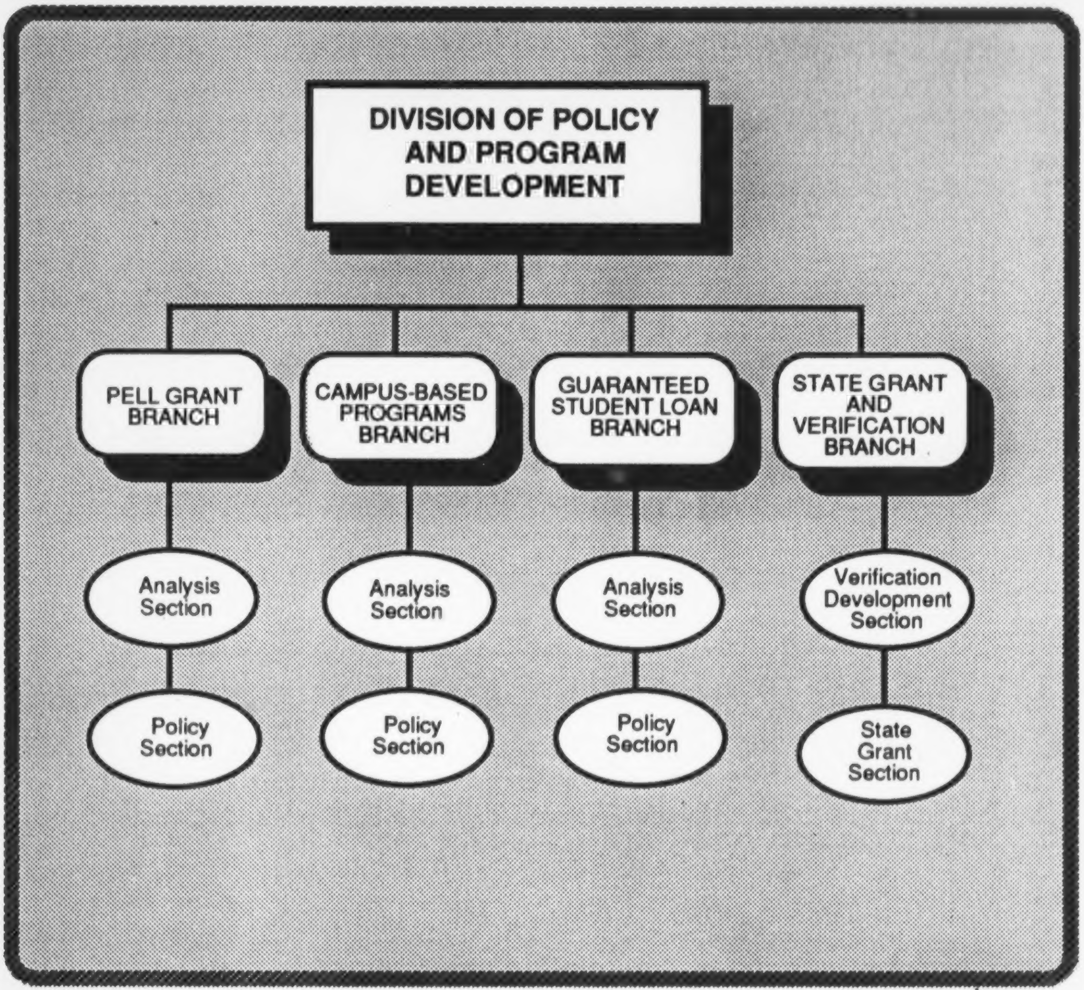
SECTION ONE: OFFICE OF STUDENT FINANCIAL ASSISTANCE (OSFA) ORGANIZATION

Deputy Assistant Secretary
708-8391

The Deputy Assistant Secretary for Student Financial Assistance is responsible for administering the SFA programs and for developing the policies and procedures to meet the objectives of those programs.

OSFA organization

OSFA has five divisions organized by function (policy and program development, operations and systems, audit and program review, training and dissemination, and field operations). The five OSFA divisions and their functions are described separately beginning on page 5. Telephone numbers are listed down to the branch level of each division (and to the section level if applicable). The area code for all OSFA central office numbers is **202**. Pages 23 and 24 contain the addresses and telephone numbers for the Department of Education's ten regional offices. Page 25 contains a map of the Department's regions.


DIVISION OF POLICY AND PROGRAM DEVELOPMENT
PELL GRANT BRANCH
CAMPUS-BASED PROGRAMS BRANCH
GUARANTEED STUDENT LOAN BRANCH
STATE GRANT AND VERIFICATION BRANCH
Analysis Section
Analysis Section
Analysis Section
Verification Development Section
Policy Section
Policy Section
Policy Section
State Grant Section

Division responsibilities

THE DIVISION OF POLICY AND PROGRAM DEVELOPMENT (DPPD) is responsible for developing and issuing program policies and regulations. DPPD contains four branches: Pell Grant, Campus-Based Programs, Guaranteed Student Loan, and State Grant and Verification. The Division's main telephone number is **708-5217**.

Common functions of DPPD program branches

The Pell Grant, Campus-Based Programs, and Guaranteed Student Loan Branches each contain a policy section and an analysis section. Each policy section develops the regulations and other materials such as "Dear Colleague" letters and update bulletins that explain program policies to the financial aid community. In addition, each policy section makes policy decisions and reviews and comments on proposed legislative changes. The analysis sections collect information on the programs to analyze progress made in meeting program objectives, and to project the fiscal impact of legislative and regulatory changes.

PELL GRANT BRANCH (708-7888)

Analysis Section 708-7888

This branch contains the Pell Grant Analysis and Policy Sections. The Analysis Section develops the Pell Grant Payment Schedule, designs the Application for Federal Student Aid (AFSA), produces the Pell Grant End of Year Report, updates the family size offsets for the Pell Grant Index (formerly the Student Aid Index), and performs budget forecasting for the Pell Grant Program—forecasting the impact of proposed legislative amendments. The Analysis Section also develops the common Federal data elements that will be used in both the Federal and MDE applications.

Policy Section 708-7888

The Pell Grant Policy Section develops the Pell Grant regulations (34 CFR Part 690), and the General Provisions regulations (34 CFR Part 668). The General Provisions regulations include subparts on general student and program eligibility; standards for school participation in the SFA programs; certification statement requirements; student consumer information services; verification; misrepresentation, fine, limitation, suspension, and termination proceedings; and appeal procedures for audit determinations and program review determinations.

The Policy Section is responsible for such issues as the independent student definition, the Pell Grant formula, citizenship requirements, and general SFA program eligibility requirements (such as the Selective Service registration requirement and Drug Free Schools and Campuses requirement).

CAMPUS-BASED PROGRAMS BRANCH (708-8963)

Analysis Section 708-8963

This branch contains the Campus-Based Analysis and Policy Sections. The Campus-Based Analysis Section tracks campus-based program allocations, expenditures, and aid recipients by State and school. It supplies this information on request to the financial aid community.

Policy Section 708-4690

The Campus-Based Policy Section develops and updates the regulations for the Income Contingent Loan Program (34 CFR Part 673), the Perkins Loan Program (34 CFR Part 674), the College Work-Study Program (34 CFR Part 675), and the Supplemental Educational Opportunity Grant Program (34 CFR Part 676).

GUARANTEED STUDENT LOAN BRANCH (708-8242)

This branch contains the Guaranteed Student Loan Analysis and Policy Sections.

Analysis Section 708-8242

In addition to the general functions previously mentioned for all three program analysis sections, the GSL Analysis Section recommends and develops plans for evaluation studies on lender activity and on default rates. The Section develops the *Guaranteed Student Loan Data Book*. This publication provides historical data on Stafford, PLUS, and SLS activity, such as loan volume, lender portfolio, and default and collection activity.

Policy Section 708-8242

The Policy Section develops the regulations for the Guaranteed Student Loan Programs (34 CFR Part 682). Part 682 includes the Stafford, PLUS, SLS, and Consolidation Loan Programs.

STATE GRANT AND VERIFICATION BRANCH (708-4777)

This branch contains the Verification Development Section and the State Grant Section.

Verification Development Section 708-4601

The Verification Development Section develops policies and procedures for verifying the accuracy of data reported by students and parents in the application process. It develops the criteria under which applicants are selected for verification and develops the verification regulations (34 CFR Part 668-Subpart E). The Section also participates in the testing of the verification selection edits in the Federal processing system to ensure selection accuracy.

The Verification Development Section works with the Immigration and Naturalization Service (INS) to verify immigration status eligibility of non-citizen applicants through a computer matching program. For more details on citizenship requirements, you should review the Appendix to Chapter Two of this *Handbook*, "Documenting Citizenship Status."

Lastly, the Section participates in the annual certification of Need Analysis Servicers. Each year, the Department certifies that the PGI and the FC produced by the servicers is consistent with the calculation prescribed by law. The Branch annually publishes a notice soliciting participation by need analysis servicers and closely coordinates the testing of the calculations produced by the servicers. Once systems are certified, the Section ensures that agreements are executed, sends a letter of approval to each servicer, and notifies schools about the systems that have been certified through a "Dear Colleague" letter.

Referral of Fraud cases

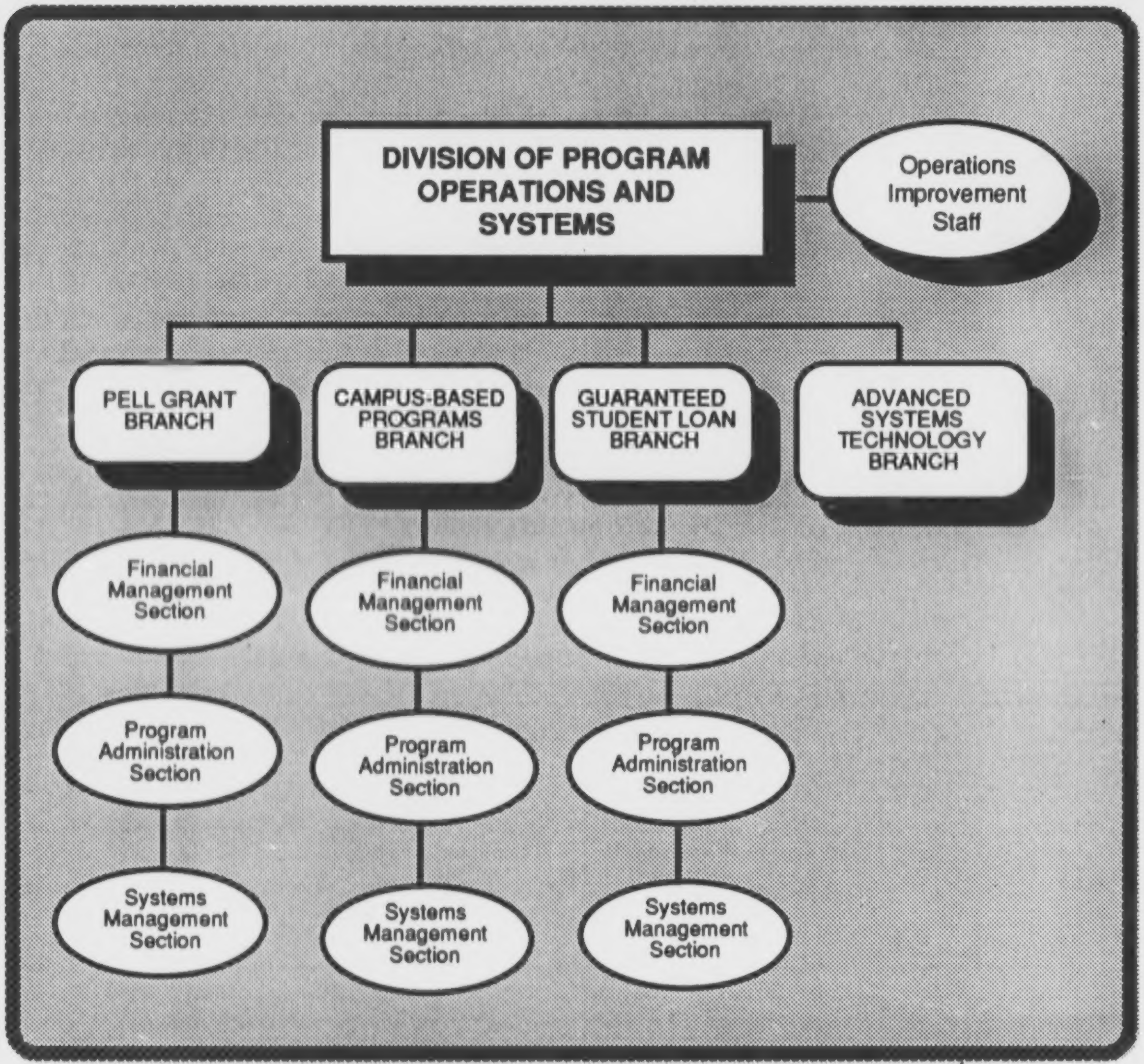
If you suspect that an applicant, employee, or other individual has misrepresented information and/or altered documentation for the purpose of increasing his or her student aid eligibility or fraudulently obtaining Federal funds, you should report your suspicions (and provide any evidence) to the Office of Inspector General (OIG) or to local law enforcement officials. You can contact the OIG Hotline at **1-800-MIS-USED**. Or you may write to the address at the top of the next page:

Inspector General's Hotline
Office of Inspector General
U.S. Department of Education
400 Maryland Avenue, S.W.
Washington, D.C. 20202-1510

State Grant Section 708-4607

The State Grant Section administers and develops the regulations for the SSIG (34 CFR Part 692), the Paul Douglas Teacher Scholarship (formerly called the Congressional Teacher Scholarship or the Carl D. Perkins Scholarship) (34 CFR Part 653), and the Robert C. Byrd Honors Scholarship (34 CFR Part 654) Programs. Regarding the new National Science Scholars Program (34 CFR Part 652), the Section is responsible for the policy development and analysis functions. It is also responsible for coordination between OSFA and the States on student financial aid.

The State Grant Section develops and implements the standards for review of State program agreements. The Section reviews and approves State agency applications for funds and allocates those funds. (For a more detailed explanation of how these funds are allocated to—and used by—the individual States, see Chapter Nine of this *Handbook*.) The State Grant Section also monitors State program operations, develops regulations and legislative proposals, and provides guidance to State agencies on policy and procedural issues. In addition, the Section conducts program reviews and resolves audit findings.


DIVISION OF PROGRAM OPERATIONS AND SYSTEMS
Operations Improvement Staff
PELL GRANT BRANCH
CAMPUS-BASED PROGRAMS BRANCH
GUARANTEED STUDENT LOAN BRANCH
ADVANCED SYSTEMS TECHNOLOGY BRANCH
Financial Management Section
Program Administration Section
Systems Management Section
Financial Management Section
Program Administration Section
Systems Management Section
Financial Management Section
Program Administration Section
Systems Management Section

Division responsibilities

THE DIVISION OF PROGRAM OPERATIONS AND SYSTEMS (DPOS) is responsible for the delivery and control of Federal funds and services authorized for the SFA programs. It develops procedures for delivering program services, controlling and accounting for funds, and develops and maintains automated accounting and management information systems. The Division is organized into four branches: Pell Grant, Campus-Based, Guaranteed Student Loan, and Advanced Systems Technology. The Division's main telephone number is **708-7701**.

Operations Improvement Staff

The Division contains an Operations Improvement Staff. This staff is responsible for developing the requirements and specifications for the Student Aid Delivery System, which includes the Central Processing System (CPS), the Multiple Data Entry (MDE) system, and the Need Analysis Service (NAS) systems.

The staff develops the Student Aid Report. It also develops the Electronic Need Analysis system (ENAS) and distributes the software and the user's guide to the student financial aid community. If you have questions about ENAS, you should contact Macro International, Inc. at **(301) 588-5484** and ask for "ENAS Technical Support."

The Operations Improvement Staff also administers the applicant roster/tape service, which provides information about applicants from the Federal Student Aid Processing system to schools and State agencies. If you have questions about, or concerning participation in, the applicant roster/tape service, you should contact the Applicant Roster and Tape Service Specialist, Federal Student Aid Programs at **(319) 339-6766**.

PELL GRANT BRANCH (708-9145)

This branch is responsible for the delivery of Pell Grant funds to schools. The Branch contains three sections: Financial Management, Program Administration, and Systems Management.

Financial Management Section 708-9807

The Financial Management Section has the responsibility for the effective control and management of Pell Grant funds in cooperation with other sections and divisions. The Section is composed of two units: Disbursement and Fund Control. If you have any questions about the information reported on Payment Vouchers, Institutional Payment Summaries (IPS), IPS Batch Reports, Student Payment Summaries, or the Pell Grant Statement of Account, you should contact the Financial Management Specialist assigned to your school's region.

The Fund Control Unit manages program funds and institutional accounts and transactions that occur throughout the award year. The Unit communicates changes to each school's Pell authorization to the Department's Financial Management Service, which disburses program funds to the school.

Program Administration Section 708-7716

The Program Administration Section (PAS) is composed of two units: Management and Planning, and Program Services. PAS analyzes program data to identify changes in funding patterns, develops plans for identifying and controlling fraud and abuse, evaluates Pell Grant processing activities to improve operation procedures, and disseminates data collection forms for the Pell Grant Program.

Systems Management Section 708-8188

The Systems Management Section manages the two major systems operations of the Branch:

☐ maintaining and updating the file of schools that participate in the Pell Grant Program, and
☐ processing the Payment Vouchers received from those schools.

Information from these processed vouchers is used by the Financial Management Service to make adjustments to each school's authorization throughout the year.

Automated Data Exchange options

The Section also provides schools and servicers with automated data exchange options for submitting their payment information in place of paper. These options are—

- ☐ Tape/cartridges, called Recipient Data Exchange (RDE);
- ☐ Telecommunicated Electronic Data Exchange (EDE); and
- ☐ Floppy Disk Data Exchange (FDDE).

(EDE also permits sending and receiving application data for student aid). Signed agreements to use the automated options are solicited and maintained by the Section. It also provides listings of participating schools to the financial aid community and State educational agencies on request. It initiates contact with newly eligible schools to determine initial funding requirements

The names and telephone numbers of the Automated Data Exchange Specialists are listed on page 16 of this Chapter. User's Manuals for each automated option are produced annually by the Section.

CAMPUS-BASED PROGRAMS BRANCH (708-9711)

This branch controls the allocation of campus-based funds to schools, as well as Income Contingent Loan and National Science Scholars Program funds. It also monitors school expenditures of these funds through an annual report called the Fiscal Operations Report. The Branch contains three sections: Financial Management, Program Administration, and Systems Management.

Financial Management Section 708-7741

The Financial Management Section (FMS) develops the methodology for allocating funds among the schools participating in the campus-based programs. Schools apply for campus-based program funds by completing the *Application and Fiscal Operations Report for Federal Student Financial Aid Programs (FISAP)*. The FISAP contains a section called the Fiscal Operations Report for schools to report expenditures against previous-year campus-based fund allocations. If you have questions regarding your school's funding levels, you should call your designated Campus-Based State Representative. A list of these representatives, along with each representative's telephone number is included on page 14 of this section.

The FMS adjusts expenditures when such an adjustment is warranted as the result of a program review or audit, and provides assistance to schools on how to determine funding levels and reconcile expenditures at the end of the year.

Finally, FMS is responsible for reimbursing schools for National Defense/Direct and Perkins Loan teacher/military cancellations; it prepares the financial obligation documents, check tapes, and institutional payment letters.

Program Administration Section 708-6726

The Program Administration Section (PAS) provides assistance and advice to schools, billing services, and borrowers on Perkins Loan deferment and cancellation provisions, extension of the borrower's repayment schedule, and promissory note provisions. It provides assistance to schools regarding due diligence procedures and default reduction. The Section prepares the annual listing of elementary and secondary schools with a high concentration of students from low-income families. National Defense/Direct and Perkins Loan borrowers who teach at these schools may have part or all of their loans cancelled.

The PAS maintains a file of each school that has a cash balance in its Perkins Loan fund far in excess of the school's need. It also maintains a file of schools that have closed or have terminated their participation in the Perkins Loan Program. The Section reviews and approves requests for partial waivers of the school share of the total CWS earned compensation and/or SEOG awards. (Each award year, the Secretary authorizes certain CWS and SEOG awards to be made entirely from the Federal portion of the school's program funds.) Instructions on requesting this waiver are included in Part II of the FISAP. This section also administers operational aspects of the National Science Scholars Program and the Income Contigent Loan Program.

Systems Management Section 708-6726

The Systems Management Section (SMS) is responsible for developing and maintaining computer systems that support the campus-based programs. The SMS maintains the automated master file of schools participating in the campus-based programs. It assigns serial numbers for new schools and corrects and updates files as necessary for change of ownership, name, address, or entity number. SMS also updates the files of schools for which campus-based funds are earmarked but not allocated due to pending certification or other reasons.

The SMS is also responsible for automating other functions of the campus-based programs; two prominent examples of this automation support are the Electronic FISAP (electronic application for campus-based funds rather than completing the paper FISAP) and DRAP (Default Reduction Assistance Project). DRAP assists schools in returning borrowers with defaulted Perkins Loans to repayment. Under DRAP, participating schools can request the Department to send any one of a series of three letters to borrowers who have defaulted on their Perkins Loans or NDSLs.

(The series includes a warning letter, 48 hour notice letter, and a final demand letter.)

GUARANTEED STUDENT LOAN BRANCH (708-9169)

This branch covers the operation of the Stafford, PLUS, SLS, Consolidation, and Federal Insured Student Loan (FISL) Programs. The branch contains three sections: Financial Management, Program Administration, and Systems Management.

Financial Management Section 708-8774

The Financial Management Section is the branch's accounting arm. It contains a Claims Unit and a Payments Unit. The Claims Unit develops the system used to process and pay FISL claims (from lenders) and reinsurance claims (from guarantee agencies) for default, bankruptcy, death, and disability, and calculates and processes payment of administrative cost allowance and advance funds, and reinsurance collections from guarantee agencies.

The Payment Unit maintains the lender and school master files for the guaranteed loan programs (Stafford, PLUS, and SLS), and processes interest and special allowance payments to lenders. In general, the Department pays a lender the interest due on Stafford Loans for borrowers who are eligible for interest benefits while they are in school at least half-time, during the loan's grace period, and during authorized deferment periods. The special allowance is an interest subsidy paid by the Department to lenders allowing them to make these loans at a lower (than commercial) interest rate. Chapter Ten of the *Handbook* covers the Stafford/PLUS/and SLS Programs in detail.

Program Administration Section 708-8760

The Program Administration Section (PAS) develops data collection forms that are used in the operation of the guaranteed loan programs. These forms are used by guarantee agencies to report data on student loans to the Department. (Examples of these forms include the Guarantee Agency Monthly Claims and Collections Report and the Lender's Request for Payment of Interest and Special Allowance.) This section also develops the Pre-Claims Assistance Letters, which are used to remind borrowers under the FISL Program of their repayment obligation. FISL borrowers who are more than 60 days delinquent in their payments will receive an initial warning letter and borrowers who are more than 80 days delinquent will receive the "48-Hour" letter.

The PAS obtains data collected by guarantee agencies on students who are currently in repayment and in default. It monitors the Internal Revenue Service (IRS) Skip/Trace Service agreement between the IRS and the Department. Under this agreement, the Department has access—via IRS computer tapes—to a borrower's most current address, and can provide that information to schools, lenders, and guarantee agencies.

Systems Management Section 708-8841

The Systems Management Section is responsible for the design and daily operations of data collection systems for the guaranteed loan programs.

ADVANCED SYSTEMS TECHNOLOGY BRANCH (708-7851)

The Advanced Systems Technology Branch develops the data processing and management information systems used in supporting and managing the SFA programs. It also takes care of procurement, resource management, and other financial planning activities within the Division.

Campus Based Program
State Representatives
Financial Management Section

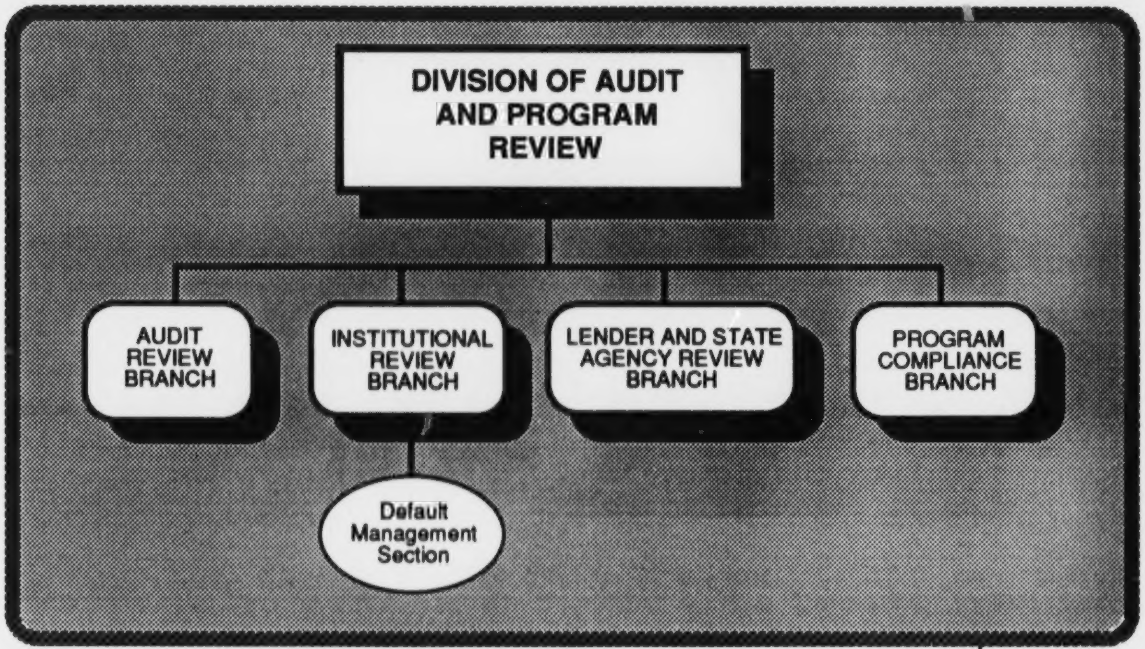
When your school files the FISAP requesting campus-based funds for the following award period (schools must request funds for 1993-94 during the 1992-93 award period, for example), you will receive "Dear Colleague" letters notifying you of the tentative and final funding. Questions regarding the FISAP or your school's funding levels should be directed to your designated Campus-Based State Representative. Below is a list of these representatives, along with their telephone numbers and the States that each representative covers.

Name	Telephone Number	States Covered
Regina Allen	708-7747	•Louisiana, Maine, Maryland, Michigan, and Massachusetts
Ilene Brown	708-9184	•Minnesota, Mississippi, Missouri, Nevada, and Ohio
Rhonda Herbert	708-9191	•Arkansas, District of Columbia, Hawaii, Texas, and Virginia
Sandra Donelson	708-9751	•Florida, Georgia, Montana, Tennessee, Utah, Wyoming, and Guam
C. Franklin Jones	708-9183	•Alabama, Alaska, Arizona, Colorado, Connecticut, Delaware, Kentucky, Rhode Island, and Vermont
Joseph Morris	708-8745	•Idaho, Illinois, Indiana, Iowa, and Kansas
Alice Payne	708-9754	•California
Jim Porter	708-7752	•North Carolina, North Dakota, Oregon, South Dakota, Washington, and West Virginia
Dorothy Proctor	708-7746	•New York, Oklahoma, Wisconsin, American Samoa, Virgin Islands, and Micronesia
Carolyn Short	708-9756	•Nebraska, New Hampshire, New Jersey, New Mexico, Pennsylvania, and South Carolina
Judy Norris	708-9757	•Puerto Rico

Pell Grant Program
Automated Data Exchange Specialists

Listed below are the Automated Data Exchange Specialists and their telephone numbers. Contact the appropriate specialist if you have questions on participation in these services.

→ *Recipient (Tape) Data Exchange—*	
Theressa Vaughan	708-9026
→ *Electronic Data Exchange—*	
Paul Mathis	708-8270
Donnette Walker-Lark *(Stage I--ESAR)* *(Stage II--Applicant Data Corrections)*	708-8270
Bernadette Herbert *(Stage III--Pell Grant Payment Data)*	708-9819
→ *Floppy Disk Data Exchange—*	
Theressa Vaughan *(Program Questions)*	708-9026
Andria DiNonno *(Technical Questions)*	708-9141
Designated Financial Management Specialist *(Funding Questions)*	708-9807


DIVISION OF AUDIT AND PROGRAM REVIEW
AUDIT REVIEW BRANCH
INSTITUTIONAL REVIEW BRANCH
LENDER AND STATE AGENCY REVIEW BRANCH
PROGRAM COMPLIANCE BRANCH
Default Management Section

Division Responsibilities

THE DIVISION OF AUDIT AND PROGRAM REVIEW (DAPR) is responsible for monitoring schools' and financial institutions' administration of SFA programs through audit reviews and school, lender, and State agency reviews. It is also responsible for administering the fine, limitation, suspension, and termination authority. DAPR contains four branches: Audit Review, Institutional Review, Lender and State Agency Review, and Program Compliance. The Division's main telephone number is **708-8197**.

AUDIT REVIEW BRANCH (708-8208)

The Audit Review Branch (ARB) reviews and analyzes all audits of the SFA programs to determine if a school has administered the program(s) within the guidelines of the statutes, regulations, and established policies. It advises schools of any necessary corrective actions or monetary reimbursements required as a result of audit findings. The Branch also monitors a school's adherence to the biennial audit requirement. The Branch has three sections: Section 1 carries out all Branch functions for schools located in regions V, VII, VIII, and X; Section 2 carries out all Branch functions for schools located in regions III, VI and IX; and Section 3 carries out all Branch functions for schools located in regions I, II, and IV.

INSTITUTIONAL REVIEW BRANCH (708-8701)

The Institutional Review Branch develops standards and procedures for program reviews and develops criteria that identify schools for review. It conducts program reviews and certification reviews at schools participating in the SFA programs and prepares and distributes reports on the findings, resolutions, and repayment of Federal funds directly attributable to the program review effort. The branch has three sections: Section 1 has priority for handling schools in regions I through III, Section 2 has priority for schools in regions IV through VII, and Section 3 has priority for schools in regions VIII through X.

Default Management Section 708-9396

The Default Management Section identifies schools with high default rates and requires those schools to submit default management plans, reviews and approves plans that are submitted, monitors the schools' compliance with their approved plans through program reviews, and provides guidance on default management. It works with guarantee agencies in reviewing schools with high default rates and prepares and distributes reports on default reduction activities.

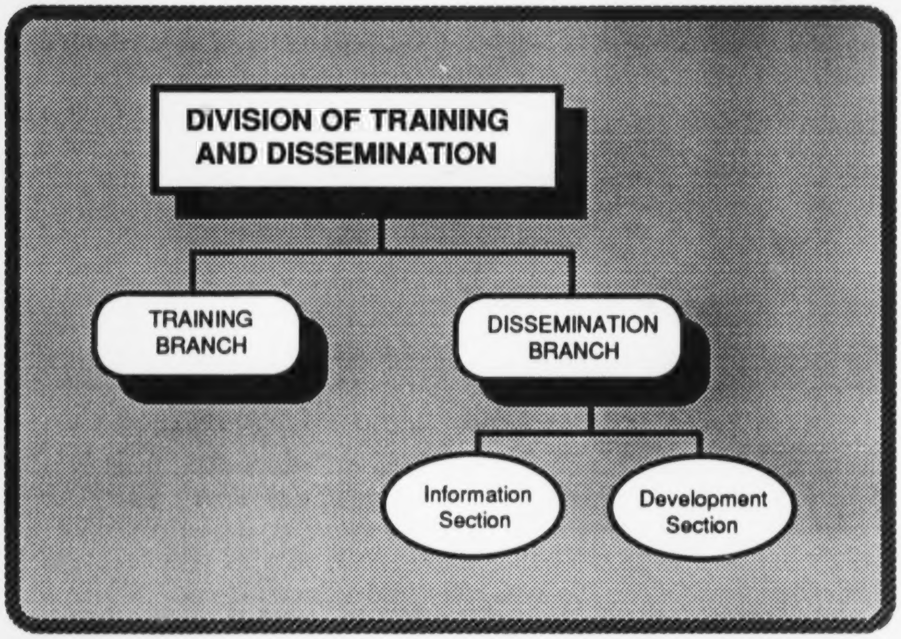
LENDER AND STATE AGENCY REVIEW BRANCH (708-8701)

The Lender and State Agency Review Branch develops standards and procedures for reviews of lenders and State guarantee agencies, and develops criteria that identify lenders and agencies for review. The branch prepares and distributes reports on the findings, resolutions, and repayment of Federal funds directly attributable to these reviews. Federal regulations require guarantee agencies to conduct their own comprehensive biennial on-site program reviews of their largest schools and lenders. To assist the agencies in conducting these reviews, this branch prepares two publications: the *School Site Review Guide* and the *Lender Site Review Guide.*

This branch has two sections: Section 1 has priority for handling lender and agency reviews in regions IV, V, and VI; and Section 2 has priority for handling lender and agency reviews in regions I, II, and IX. Regions III, VII, VIII, and X do not have Guaranteed Student Loan Branches. Their reviews are handled by one of the designated branches from the above two sections.

PROGRAM COMPLIANCE BRANCH (708-5205)

The Program Compliance Branch administers the procedures used in taking fine, limitation, suspension, termination, and emergency actions against the participating schools and lenders that have violated Federal regulations. It helps to prepare and to coordinate civil litigation activities and cases with the ED Office of the General Counsel and the Department of Justice. The Branch also administers the Division's funding control actions, by placing, removing, and transferring schools from one type of payment system to another.



Division Responsibilities

THE DIVISION OF TRAINING AND DISSEMINATION (DTD) coordinates training activities for the financial aid community and disseminates information on the SFA programs to the aid community, the general public, and other groups (for example, members of Congress). The Division contains the Training and Dissemination Branches. The Division's main telephone number is **708-8134**.

TRAINING BRANCH (708-8146)

The Training Branch directs training activities on the SFA programs. It assesses training needs, determines the methods to be used, and develops and evaluates training programs. This training is carried out by staff members of the Branch itself, regional office staff members, and/or contractors. Training is targeted toward financial aid administrators, fiscal officers, chief executive officers, high school counselors, and staff of State aid/loan guarantee agencies and lending institutions.

DISSEMINATION BRANCH (708-9152)

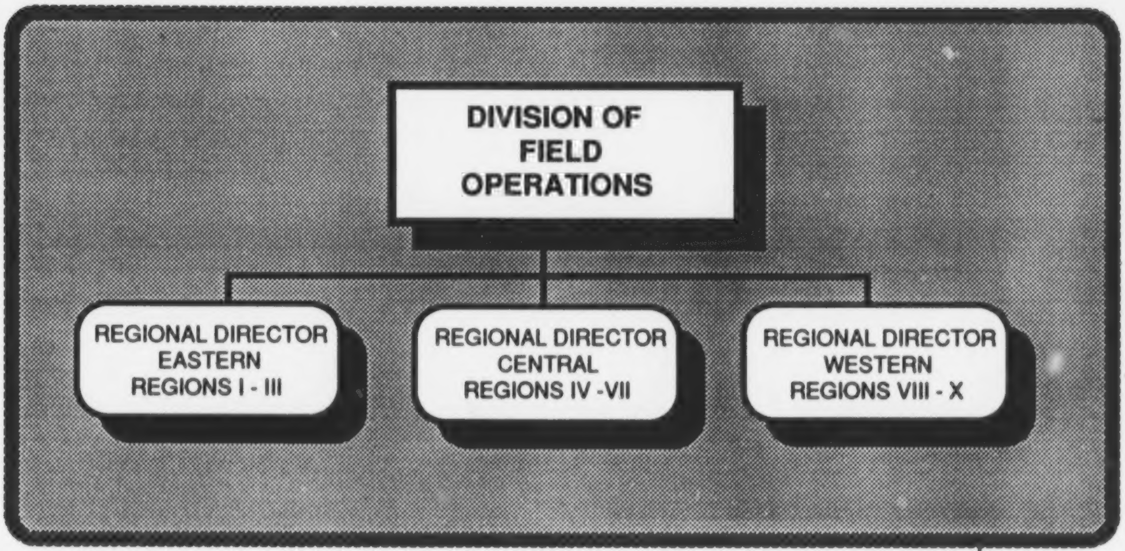
The Dissemination Branch distributes information about the SFA programs through publications, public media announcements, attendance and technical assistance at meetings and conferences, and distribution of brochures and technical publications to schools, State agencies, student organizations, and other groups interested in student financial aid. The Branch also handles the printing and distribution of SFA forms and publications. It contains the Information and Development Sections.

Information Section 708-5154

The Information Section is responsible for responding to telephone inquiries from the general public, Congressional offices, and the education community concerning the SFA programs. You may call either this section or the Federal Student Aid Information Center (FSAIC) if you have questions on the SFA programs. The FSAIC's toll-free telephone number is **1-800-4-FED-AID (1-800/433-3243)**. The Section exhibits and disseminates SFA materials at national and regional educational conferences. It maintains computerized mailing lists and tracking systems for SFA materials and also maintains the OPE Electronic Bulletin Board (OPEnet). OPEnet disseminates OPE policy documents (such as regulations, "Dear Colleague" letters, Qs and As, calendars, and News Bulletins) electronically to a user's PC or mainframe terminal. This maximizes the availability of, and access to, policy information.

Development Section 708-9152

The Development Section develops SFA publications for a variety of audiences: financial aid administrators, high school counselors, parents, students, financial aid recipients, and the general public. These publications include the *FSFA Handbook, Pell Grant Formula, Congressional Methodology*, and *The Student Guide*. The Section also developed the 1992-93 *Verification Guide*. The Section develops informational materials for specialized audiences (for example, handicapped, Spanish-speaking) and writes the standard paragraphs and form letters used in responding to general correspondence concerning SFA programs.


DIVISION OF FIELD OPERATIONS
REGIONAL DIRECTOR EASTERN REGIONS I - III
REGIONAL DIRECTOR CENTRAL REGIONS IV -VII
REGIONAL DIRECTOR WESTERN REGIONS VIII - X

Division responsibilities

THE DIVISION OF FIELD OPERATIONS (DFO) implements central office functions in the field through the regional offices. It conducts program reviews of participating schools, lenders, and guarantee agencies, in accordance with program review policies and procedures established by the Division of Audit and Program Review. DFO also helps the financial aid community implement the SFA programs, and provides training programs for the financial aid community in cooperation with the Division of Training and Dissemination.

Division organization

The Director of Field Operations and the immediate staff members are located in the central office in Washington, D.C. Three regional directors serve as direct supervisors for a designated group of regional offices. The Eastern Regional Director is located in Region I and supervises Regions I, II, and III; the Central Regional Director is located in Region VI and supervises Regions IV, V, VI, and VII; and the Western Regional Director is located in Region IX and supervises Regions VIII, IX, and X.

DFO contains the Institutional Review Branch (IRB) and the Guaranteed Student Loan Branch (GSLB). There is an IRB in each of the ten regional offices, a GSLB located in six of the regional offices, and a Training Officer in each of the regional offices. Telephone numbers for the individual branches are listed with the regional office addresses on pages 23 and 24. The Division's central telephone number is **708-9192**.

INSTITUTIONAL REVIEW BRANCH

Each region's Institutional Review Branch (IRB) conducts program reviews of student financial assistance programs in schools, and initiates corrective actions required to ensure that SFA funds are being properly used.

IRBs review schools

The IRBs recommend settlement terms for liabilities identified in program reviews and also recommend reimbursement method of funding, monitoring of funds, and limitation, suspension, termination, or fine actions. They facilitate the accountability of SFA funds at schools that have closed or are ceasing participation in SFA programs, negotiate transfer of Perkins Loan funds and promissory notes from one school to another or to the Department of Education, and approve changes in institutional Perkins Loan level of lending.

The IRBs also provide necessary training, as coordinated by the Training Officer, for schools and other financial aid groups in the region, and provide technical assistance to the financial aid community.

GUARANTEED STUDENT LOAN BRANCH

GSLBs review lenders and guarantee agencies

The Guaranteed Student Loan Branches (GSLBs) perform reviews of participating lenders and of guarantee agencies in their own regions. Four of the regional offices (Regions III, VII, VIII, and X) do not have GSLBs. In these regions, the lender and guarantee agency reviews will be done by one of the GSLBs in the other six regions. Region II handles the reviews for Region III; Region VI handles the reviews for Region VII; and Region IX handles the reviews for Regions VIII and X.

In conducting these reviews, the GSLB initiates corrective actions required to ensure that SFA loan funds are being properly used and programs are properly administered. The Branch also monitors guarantee agency staff reviews of schools and lenders to ensure compliance with Federal requirements and recommends settlement terms for liabilities identified in these reviews.

The GSLB provides training, as coordinated by the Training Officer, for lenders, guarantee agencies, and other financial aid groups in the designated regions; it also provides technical assistance and service to lenders and guarantee agencies.

Common functions of both branches

Both the IRBs and the GSLBs refer cases involving the mishandling of SFA funds to the Office of Inspector General in the Region and/or the Division of Audit and Program Review in the central office, and work closely with the Institutional Review Branch and the Lender and State Agency Review Branch of DAPR to resolve questions of fund liability and policy.

The following page contains a list of the street addresses and telephone numbers for the IRBs. A similar list for the GSLBs appears on page 24. Both Branch addresses have common elements as shown in the box below.

For inquiries to the IRBs, the first part of the address is—

U.S. Department of Education, Region xx
Office of Student Financial Assistance
Institutional Review Branch

For inquiries to the GSLBs, the first part of the address is—

U.S. Department of Education, Region xx
Office of Student Financial Assistance
Guaranteed Student Loan Branch

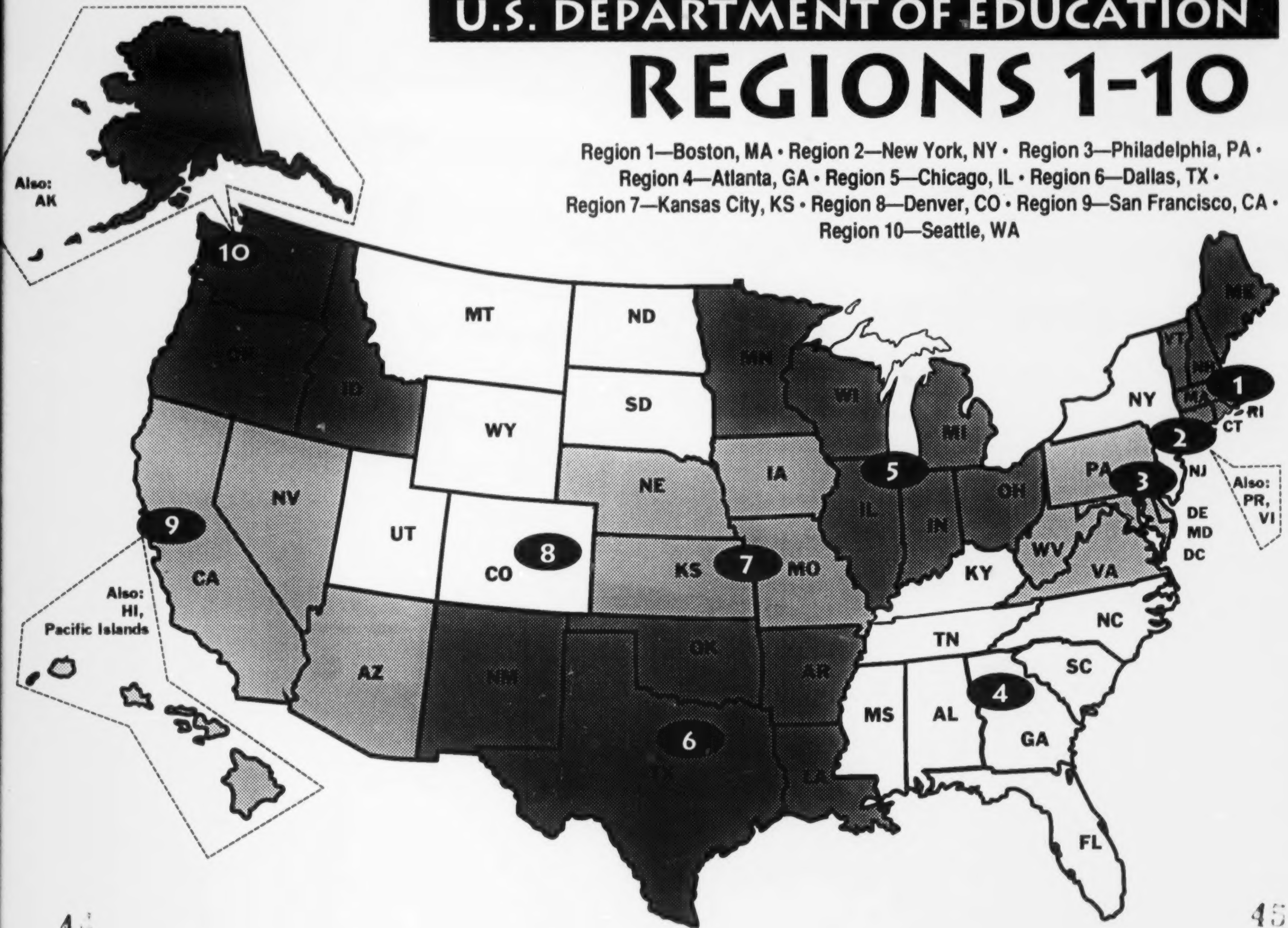
	Institutional Review Branches	*States Served*
Region I	J.W. McCormack Post Office and Courthouse Bldg. 5 Post Office Square, Room. 510 MS 01-0070 Boston, Massachusetts 02109 *Telephone: (617) 223-9328*	Conneticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont
Region II	26 Federal Plaza, Room 3954 MS 02-1081 New York, New York 10278 *Telephone: (212) 264-4022*	New Jersey, New York, Puerto Rico, and the Virgin Islands
Region III	3535 Market Street, Room 16200 MS 03-2080 Philadelphia, Pennsylvania 19104 *Telephone: (215) 596-1018*	Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, and West Virginia
Region IV	PO Box 1692 MS 04-3080 Atlanta, Georgia 30301 *Telephone: (404) 331-4168*	Alabama, Florida, Georgia, Kentucky, Mississippi, North & South Carolina, and Tennessee
Region V	401 South State Street, Room 700-D MS 05-4080 Chicago, Illinois 60605 *Telephone: (312) 353-0375*	Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin
Region VI	1200 Main Tower, Room 2150 MS 06-5080 Dallas, Texas 75202 *Telephone: (214) 767-3811*	Arkansas, Louisiana, New Mexico, Oklahoma, and Texas
Region VII	10220 North Executive Hills Blvd. 9th Floor Kansas City, Missouri 64153-1367 *Telephone: (816) 891-8055*	Iowa, Kansas, Missouri, and Nebraska
Region VIII	Federal Building, Suite 310 1244 Speer Boulevard Denver, Colorado 80204-3582 *Telephone: (303) 844-3676*	Colorado, Montana, North & South Dakota, Utah, and Wyoming
Region IX	50 United Nations Plaza, Room 270 MS 09-8080 San Francisco, California 94102-4987 *Telephone: (415) 556-5689*	Arizona, California, Hawaii, Nevada, American Samoa, Guam, Federated States of Micronesia, Palau, Marshall Islands, & the Commonwealth of the Northern Marianas
Region X	915 Second Avenue, Room 3388 MC 10-9081 Seattle, Washington 98174-1099 *Telephone: (206) 553-0434*	Alaska, Idaho, Oregon, and Washington

	Guaranteed Student Loan Branches	*States Served*
Region I	J.W. McCormack Post Office and Courthouse Bldg. 5 Post Office Square, Room. 510 MS 01-0070 Boston, Massachusetts 02109 *Telephone: (617) 223-9328*	Conneticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont
Region II	26 Federal Plaza, Room 3954 MS 02-1081 New York, New York 10278 *Telephone: (212) 264-8143*	New Jersey, New York, Puerto Rico, the Virgin Islands, Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, and West Virginia
Region III	No Guaranteed Student Loan Branch (served by Region II)	
Region IV	PO Box 1692 Atlanta, Georgia 30301 *Telephone: (404) 331-5658*	Alabama, Florida, Georgia, Kentucky, Mississippi, North & South Carolina, and Tennessee
Region V	401 South State Street, Room 700-D MS 05-4080 Chicago, Illinois 60605 *Telephone: (312) 353-0377*	Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin
Region VI	1200 Main Tower, Room 2150 MS 06-5080 Dallas, Texas 75202 *Telephone: (214) 767-3811*	Arkansas, Louisiana, New Mexico, Oklahoma, Texas, Iowa, Kansas, Missouri, and Nebraska
Region VII	No Guaranteed Student Loan Branch (served by Region VI)	
Region VIII	No Guaranteed Student Loan Branch (served by Region IX)	
Region IX	50 United Nations Plaza, Room 250 MS 09-8080 San Francisco, California 94102-4987 *Telephone: (415) 556-1630*	Arizona, California, Hawaii, Nevada, American Samoa, Guam, Federated States of Micronesia, Palau, Marshall Islands, the Commonwealth of the Northern Marianas, Colorado, Montana, North & South Dakota, Utah, Wyoming, Alaska, Idaho, Oregon, and Washington
Region X	No Guaranteed Student Loan Branch (served by Region IX)	

U.S. DEPARTMENT OF EDUCATION

REGIONS 1-10

Region 1—Boston, MA • Region 2—New York, NY • Region 3—Philadelphia, PA •
Region 4—Atlanta, GA • Region 5—Chicago, IL • Region 6—Dallas, TX •
Region 7—Kansas City, KS • Region 8—Denver, CO • Region 9—San Francisco, CA •
Region 10—Seattle, WA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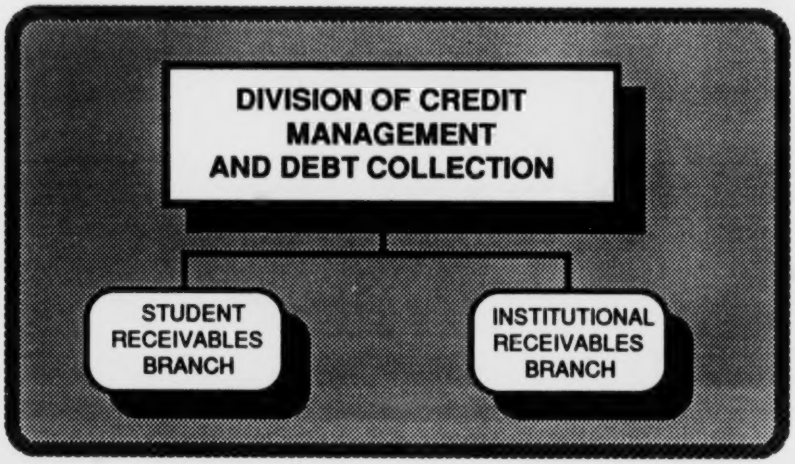
SECTION TWO:
DEBT COLLECTION AND MANAGEMENT ASSISTANCE SERVICE (DCMAS)

DCMAS responsibilities

The Debt Collection and Management Assistance Service manages both the Department's student loan collection efforts and institutional construction loan collection efforts. The Service also implements systems for improved management, quality control, and productivity throughout OPE and certifies eligible schools for participation in the SFA programs. The main telephone number for DCMAS is **708-9448**.

DCMAS has three divisions organized by function (debt collection, quality assurance, and eligibility and certification). The three DCMAS divisions and their functions are described separately beginning on page 29. The descriptions include the telephone numbers for each division and its branches. The area code for each DCMAS central office number is **202**.


DIVISION OF CREDIT MANAGEMENT AND DEBT COLLECTION
STUDENT RECEIVABLES BRANCH
INSTITUTIONAL RECEIVABLES BRANCH

Division responsibilities

THE DIVISION OF CREDIT MANAGEMENT AND DEBT COLLECTION (DCMDC) manages the student loan and institution construction loan collection efforts. The Division contains two branches: Student Receivables and Institutional Receivables, and its main telephone number is **708-4764**.

STUDENT RECEIVABLES BRANCH (708-4766)

The Student Receivables Branch is responsible for the recovery of defaulted student loans under the guaranteed loan programs (Stafford, PLUS, SLS, and FISL). The Branch also is responsible for the recovery of defaulted Perkins Loans (formerly National Direct Student Loans), and Law Enforcement Education Program Loans, as well as the recovery of overpayments under the Pell Grant Program.

The Branch coordinates collection policies and procedures for regional offices and Federal collection contractors on loans assigned to the Department for collection, and provides technical assistance on collections. Loans assigned to the Department for collection include defaulted FISLs, NDSLs, Perkins Loans, and certain guaranteed loans—those that were considered uncollectible by the previous holder of the loan, usually the guarantee agency in the borrower's State. All other defaulted guaranteed loans continue to be collected by the particular guarantee agency within the guidelines of Federal regulations. (Guaranteed loand are Stafford, PLUS, and SLS loans.) Also, defaulted NDSLs and Perkins Loans that have not been assigned to the Department continue to be collected through the schools by which they were made.

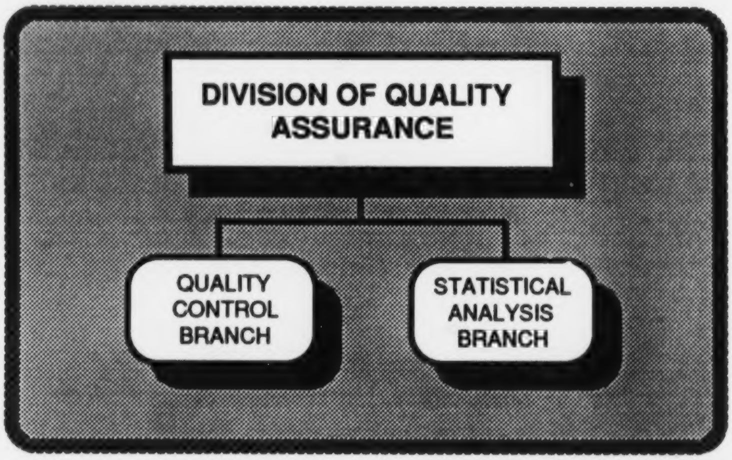
Loan collections done by Regional Offices

Collection activity on loans being collected by the Department is performed in Region IV, Atlanta; Region V, Chicago; and Region IX, San Francisco. The addresses and telephone numbers for the three regions are included in Section One of Chapter Two

Collection is also performed by contracted collection agencies. The Branch also provides training and technical assistance on debt collection procedures to agencies wishing to work as loan collectors for the Department.

INSTITUTIONAL RECEIVABLES BRANCH (708-5480)

The Institutional Receivables Branch is responsible for the collection of payments on construction loans made to schools under Title VII of the Higher Education Act of 1965, as amended, and under Title IV of the Housing Act of 1950, as amended. The Branch's responsibilities also include managing property acquired through foreclosures.



Division responsibilities

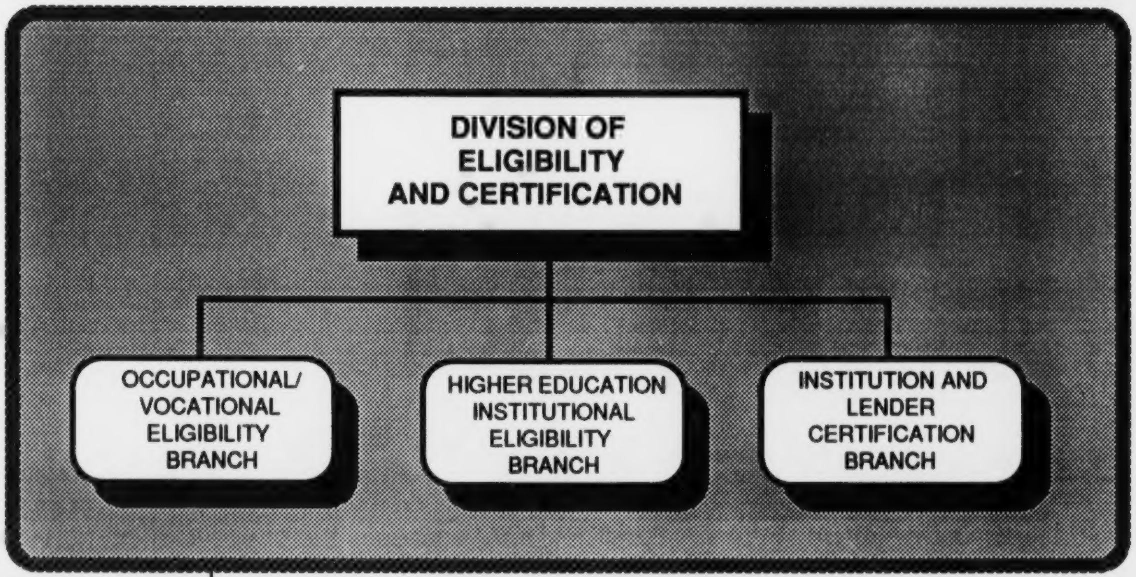
THE DIVISION OF QUALITY ASSURANCE (DQA) assesses the effectiveness of the SFA programs and develops corrective actions to help address deficiencies. The Division contains two branches: Quality Control and Statistical Analysis. The Division's main telephone number is **708-5620**.

QUALITY CONTROL BRANCH (708-6522)

The Quality Control Branch implements programs such as the Institutional Quality Control Pilot Project. Under this project, schools develop and implement a quality control system that ensures efficient expenditure of SFA funds. The Branch also develops the annual *Program Summary Book*, which provides information on Office of Postsecondary Education (OPE) programs, including program purpose, funding levels, number of schools and students served, and program history. (The OPE organization contains the major SFA programs covered in this *Handbook*.) The Branch also monitors the quality of the Federal application processing system and the Guaranteed Student Loan Processing Center.

STATISTICAL ANALYSIS BRANCH (708-9443)

The Statistical Analysis Branch is responsible for analyzing OPE program trends, identifying significant statistical variations in trends, and determining their impact on the quality and effectiveness of services provided by all OPE programs.


DIVISION OF ELIGIBILITY AND CERTIFICATION
OCCUPATIONAL/ VOCATIONAL ELIGIBILITY BRANCH
HIGHER EDUCATION INSTITUTIONAL ELIGIBILITY BRANCH
INSTITUTION AND LENDER CERTIFICATION BRANCH

Division responsibilities

THE DIVISION OF ELIGIBILITY AND CERTIFICATION (DEC) is responsible for administering Federal laws and developing the regulations (34 CFR Part 600) that govern a school's eligibility to participate in the SFA programs authorized under the Higher Education Act of 1965, as amended. DEC also determines whether a school has the administrative and fiscal capability to participate in those SFA programs. The Division's main telephone number is **708-4906**.

The Division contains three branches: Occupational/Vocational Eligibility, Higher Education Institutional Eligibility, and Institution and Lender Certification.

OCCUPATIONAL/VOCATIONAL ELIGIBILITY BRANCH (708-4913)

The Occupational/Vocational Eligibility Branch (OVEB) is responsible for determining the eligibility of non-degree granting schools. It administers the Transfer of Credit alternative to accreditation. Chapter Three of this *Handbook* explains the Transfer of Credit alternative in detail.

This branch also advises the U.S. Immigration and Naturalization Service (INS) as to the suitability of education (such as the school's accreditation) offered at non-participating schools that enroll students who are studying in the U.S. on student visas.

If your school is a non-degree-granting school, it should contact this branch to report any changes such as closure, change in ownership, name, or address.

HIGHER EDUCATION INSTITUTIONAL ELIGIBILITY BRANCH (708-4913)

The Higher Education Institutional Eligibility Branch (HEIEB) performs the same tasks as OVEB as they relate to degree-granting schools. In addition, HEIEB is responsible for determining the eligibility of foreign schools to participate in the guaranteed loan programs (Stafford, PLUS, and SLS).

INSTITUTION AND LENDER CERTIFICATION BRANCH (708-7236)

The Institution and Lender Certification Branch (ILCB) is responsible for determining the financial responsibility and the administrative capability of all schools that apply to participate in the SFA programs. Schools apply to participate in one or more of the SFA programs by completing an ED Form E-40-34P (Application for Institutional Eligibility and Certification).

ELIGIBILITY AND CERTIFICATION PROCEDURES IMPORTANT ADDRESSES

Application procedures are covered in Chapter Three of this *Handbook*. If a school believes it is eligible to apply, that school should follow the procedures discussed in Section One of Chapter Three. Inquiries concerning eligibility should be sent to the following address:

Division of Eligibility and Certification
U.S. Department of Education
400 Maryland Avenue, S.W.
Room 3522, ROB #3
Washington, D.C. 20202-5223

Non-degree-granting schools should write to the *Occupational/Vocational Eligibility Branch* at the above address, while degree-granting schools should write to the *Higher Education Institutional Eligibility Branch.*

United States
Department of
Education

Office of
Student Financial
Assistance

The Federal Student Financial Aid Handbook, 1992-93

Chapter 2

Student Eligibility and Financial Need

BEST COPY AVAILABLE

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INTRODUCTION

The purpose of this chapter of the *Federal Student Financial Aid Handbook* is to describe the student eligibility requirements that affect all of the SFA programs, including financial need. This chapter also includes an appendix with more detailed information on the documentation requirements for students who are eligible noncitizens.

RECENT CHANGES

The authority to adjust the Pell Grant Index for the Pell Grant Progam has been removed for this award year. To allow for special circumstances that might affect the family's income, the law states that expected year income will be used for students who meet certain special conditions defined by the Department. For information on using the Federal application processing system please see the ***1992-93 Counselor's Handbook for Postsecondary Schools***.

SECTION ONE: STUDENT ELIGIBILITY

This section discusses the criteria for student eligibility that are common to most of the SFA programs. While there may be variations from program to program, the basic requirements, such as citizenship and satisfactory progress, are the same whether the student is applying for a grant, a loan, or work-study. See the program chapters (4-10) for specific information on requirements that apply to individual programs.

In many cases, a student eligibility requirement is linked to an institutional requirement. For instance, a student must be making satisfactory progress to receive aid, but a school must have a satisfactory progress policy to be able to monitor this requirement. Many of these institutional requirements are discussed in this chapter.

CITIZENSHIP

In order to receive aid from the SFA programs, a student must be in one of the following categories relating to citizenship:

1. ***A U.S. citizen or national.*** The term "national" includes not only all U.S. citizens, but also citizens of American Samoa or Swain's Island.

2. ***A permanent resident of the U.S.*** A permanent resident of the United States must provide documentation from the Immigration and Naturalization Service (INS).

3. ***Certain residents of the Pacific Islands.*** Citizens of the Marshall Islands and the Federated States of Micronesia (former Trust Territories) continue to be eligible for aid from some of the SFA programs. Permanent residents of Palau, (the only remaining Trust Territory) are eligible for aid from the SFA programs. See the Appendix for further information.

4. ***Other eligible noncitizens.*** An individual who can provide documentation from the INS that he or she is in the United States for other than a temporary purpose with the intention of becoming a citizen or permanent resident. This category includes refugees, persons granted asylum, Cuban-Haitian entrants, temporary residents under the Immigration Reform and Control Act of 1986, and others. (For a detailed discussion of the different categories of eligible noncitizens and INS documentation, see the Appendix at the end of this chapter.)

Foreign schools

Individuals in the above four categories may receive aid at eligible schools in the United States under the SFA programs. However, only U.S. citizens and noncitizen nationals (category 1) are eligible for Stafford or SLS loans at the eligible foreign schools that participate in those programs. *

Match with INS records

The Department will collect the Alien Registration Numbers for permanent residents and other eligible noncitizens through the Central Processing System. (An Alien Registration Number is assigned to each legal alien by INS.) This information along with other identifying data will then be compared with INS records through a computer match. If a student's data matches the information in INS records, a comment will be printed on the Student Aid Report, and the report will serve as documentation of the student's permanent resident or eligible noncitizen status. If the school has conflicting information about the student's citizenship status, or if INS was unable to locate records for a student who claims to be an eligible noncitizen, the school will have to collect other documentation, or initiate the "Secondary Confirmation" process (see the Appendix).

Eligibility during an award year

If a student becomes a citizen or eligible noncitizen at any time during the award year, the student may be paid any SFA funds for which he or she would have been eligible during that award year (academic year for guaranteed loans). For instance, if the student's application for permanent residence was granted in the spring of the award year, the student could be paid for attendance not only in the spring session, but also for attending the fall session.

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* Parents who want to take out a PLUS loan for a dependent undergraduate student to attend an eligible foreign school must meet the general requirements for a citizen or eligible noncitizen, categories 1-4. But the student attending the foreign school must be a citizen or noncitizen national.

ENROLLMENT AS A REGULAR STUDENT IN AN ELIGIBLE PROGRAM

It has long been a requirement that a student applying for a Pell Grant or campus-based aid must be enrolled as a *regular student* in an *eligible program* to receive a Pell Grant or campus-based aid. The Higher Education Amendments of 1986 extended the regular student and eligible program requirements to cover students in the SSIG and guaranteed loan programs. (However, note two exceptions for guaranteed loans in the box on the next page.)

Regular student — A regular student is a person who enrolls for the purpose of obtaining a degree or certificate offered by the institution.

Program eligibility is based on institutional definitions

The regulatory definition of an eligible program is based on requirements found in the definitions for an eligible institution. There is an important distinction between the definition of an eligible program and the definition of an eligible institution: some programs at the school may not meet the requirements for an eligible program, although the school as a whole meets the definition of an eligible institution and participates in the SFA programs. Only students who are enrolled in *eligible programs* at the eligible institution can receive aid from the SFA programs.* See Chapter Three, Section One, for a complete discussion of program eligibility.

Aspects of an eligible program

Three aspects of the definition of an eligible program are especially important for student eligibility: its *admissions standards*, the *length of the program*, and the *educational credentials* it awards. The admissions standards and ability to benefit are discussed first because the requirements are virtually identical for all types of eligible institutions.

Admissions standards

To be eligible under the SFA programs, the educational program may only admit (as regular students) students who have a high school diploma or its recognized equivalent, or who are beyond the age of compulsory school attendance in the State where the program is being given.

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* See box on next page for exceptions.

TWO EXCEPTIONS TO THE "ELIGIBLE PROGRAM" REQUIREMENT

There are two cases where a student does not have to be enrolled in an eligible program to receive a Stafford, SLS, or PLUS loan.

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Preparatory Coursework. Students who are not enrolled in a degree or certificate program are eligible for guaranteed loans for one year if they are taking courses that are necessary for the student to enroll in an eligible program. These courses must be part of an eligible program otherwise offered by the school, although the student does not have to be enrolled in that program. For instance, a student who has already received a B.S. degree might need an additional 12 hours of specialized undergraduate biology and chemistry coursework to enroll in a graduate program. If a student is enrolled at least half-time in these prerequisite courses, and the courses are part of an eligible program, the student is eligible for loans for one consecutive 12-month period beginning on the first day of the loan period for which the student is enrolled.

P.L. 100-369

Teacher Certification. Another exception involving the guaranteed loan programs was included in P.L. 100-369, signed into law on July 18, 1988. Students who are enrolled at least half-time in required teacher certification programs are eligible for guaranteed loans, even though the educational program does not lead to a degree or certificate. The program must be required for initial elementary or secondary teacher certification or re-certification in the State where the student plans to teach, or the State in which the student is completing the program. (This exception is not intended to cover optional courses that the student elects to take for professional recognition or advancement, or that the school recommends.) The school should document that the courses the student enrolls in are required by the State for teacher certification. Students enrolled in teacher certification programs are considered fifth-year undergraduates (thus, the $4,000 annual loan limit applies for a Stafford Loan.)

Equivalents to high school diploma

The SFA regulations identify several recognized equivalents to a high school diploma. A General Education Development Certificate or a State Certificate are recognized equivalents of a high school diploma. In addition, a school may admit a limited number of students who do not have high school diplomas, but who have excelled academically in high school and have met the school's admissions standards. Similarly, the academic transcript of a student who has completed a program of at least two years that is acceptable for full credit toward a baccalaureate degree would be considered the equivalent of a high school diploma.

Minimum program length and educational credentials

The minimum length for an eligible program varies depending on the type of program. In most cases, an eligible program must be at least a 6-month training program (600 clock hours, 16 semester or trimester hours, or 24 quarter hours). However, at a vocational school (eligible only for guaranteed loans), an eligible program can be as short as 300 clock hours, 8 semester or trimester hours, or 12 quarter hours. The amount of a student's Pell Grant is reduced if the program is less than an academic year. New legislation also requires an SLS to be reduced for some programs that are less than a full academic year. (See Chapters Four and Ten.)

The eligible program must lead to a certificate, degree, or other recognized educational credential, or be at least a two-year program that is acceptable for full credit towards a bachelor's degree.

ALTERNATIVES TO A HIGH SCHOOL DIPLOMA

SFA recipients must pass test

To receive aid from the SFA programs, a student must be academically qualified for study at the postsecondary level. A student with a high school diploma or its recognized equivalent (as explained earlier) is always considered to be academically qualified for SFA purposes. Students who do not have a high school diploma or equivalent must pass an examination approved by the Department.

The Higher Education Amendments of 1986 specified three ways for students or prospective students to demonstrate ability to benefit: by passing an aptitude test, by enrolling in a remedial program, or by earning a GED during their first year of study. The Omnibus Budget Reconciliation Act of 1990 and the 1991 Technical Amendments now require a SFA applicant who does not have a high school diploma or recognized equivalent to pass an independently administered test that is approved by the Department.* Thus, the testing requirement is only a *student eligibility* requirement. The independent testing requirement is effective for students who are admitted after July 1, 1991.**

Tests must be independently administered

The Department published a notice in the **Federal Register** (December 19, 1990) to implement this requirement, listing approved tests, and inviting other test publishers to apply for approval. The test must be administered and graded by an individual or organization that has no current or prior fiscal interest in the school, other than an "arms-length" arrangement to administer the examination. An exception is made for testing or assessment centers at degree-granting schools that are independent of the admissions process, provided that these centers were in existence as of December 19, 1990 (the date of the **Federal Register** notice.) With the exception of the employees of these already existing centers, persons who administer, proctor, or score such a test must be completely independent of the postsecondary school. Thus, the test may not be given or scored by a current or former employee, consultant, or student of the school, an owner or member of the board of directors, a person with a financial interest in the school, or a relative of any ofthese individuals.

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* The testing requirement does not apply to SLS applicants. A student must have a high school diploma or equivalent to receive an SLS.

** Originally January 1, 1991; changed by P.L.102-26

Use of previous test results

A student who has taken an independently administered, approved test within the last 12 months may submit the official notification of the test score to the school to demonstrate ability to benefit. By accepting the results of a prior test, the school is responsible for documenting that the test was independently administered. A student who transfers to a new program within the same school without withdrawing or who takes a leave of absence but is considered continuously enrolled is not required to take a new test. However, a student who withdraws from a school and then reapplies must take a new test, if the test taken is more than 12 months old.

Tests arranged by the school

A school may arrange with other parties to administer approved tests to prospective and registered students. The **Federal Register** notice recommends several sources for independent test administrators:

- High school guidance counselors;
- Qualified professional educators;
- Staff of regional and area Armed Forces commands who are expert in education, training, and human resources development;
- Test and measurement experts; and
- Human resource development professionals.

The notice also suggests the use of a public or non profit center that offers assessment or testing services, provided the center operates independently of postsecondary schools that are eligible for SFA funds.

A list of the tests that have been approved by the Department as of January 24, 1992, is shown on the next two pages. Schools may use more than one of the tests on the list. (This list does not include State tests that have been approved by the Department. The Department has categorically approved tests used by States, if the tests assess the basic verbal and quantitative skills of entering postsecondary students, and the test is required for all students entering public postsecondary schools. State examinations that do not meet these criteria are not approved—however, they may be submitted to the Department for review under the normal test-approval procedures.)

Tests Approved by the Department

- ACT Assessment
- Adult Basic Learning Examination (ABLE) — Level 3
- APTICOM — Educational Skills Development Battery; and three parts of Aptitude Test Battery (Pattern Visualization, Numerical Reasoning and Word Meaning
- Aptitude Based Career Decision Test (ABCD)
- Armed Services Vocational Aptitude Battery (ASVAB) — any form may be used.
- Assessment and Placement Services (APS) — Four Tests, Battery, Form B
- ASSET — Forms A, B, or C
- Career Program Assessment Test (CPAT) — Forms A or B
- Comprehensive English Language Test for Learners of English (CELT) Forms A or B —For non-native speakers of English entering programs in which English is the language of instruction. This test can be used for students enrolled in ESL programs or programs with ESL components.
- Computerized Placement Test (CPT)
- Comprehensive Tests of Basic Skills — Edition 4, Levels 19/20 and 21/22
- Degrees of Reading Power (DRP) — Standard and advanced forms
- Descriptive Tests of Language Skills (DTLS)
- Descriptive Tests of Mathematics Skills (DTMS)
- Differential Aptitude Test — Forms V or W
- ETS Tests of Applied Literacy Skills (TALS) — Forms A and B
- Flanagan Industrial Tests — Forms A or AA, Entire Battery Only
- General Education Development Tests (GED)
- IRCA Pre-Enrollment Appraisal: Comprehensive Adult Student Assessment System — All four components must be used. Approved for students enrolling in ESL programs.
- Job Training Assessment Program (JOBTAP) — All four sections must be given i.e., Training and Work Manuals, Work Rules, and Procedures, Follow-the-Rule Arithmetic, and Find-the-Rule.

Tests approved by the Department as of January 1992. These tests were listed in the December 19, 1990 **Federal Register** and Dear Colleague letters GEN-1-91, and GEN-91-20. If additional tests are approved, you will be notified by Dear Colleague letter.

Tests Approved by the Department

- Metropolitan Achievement Tests — MAT-6, Advanced 2, Basic Survey Battery Forms L and M
- Nelson-Denny Reading Tests — Forms E or F
- P.A.R. Admissions Test — Alternate Form (English version)
- Preliminary Scholastic Aptitude Test (PSAT)
- Pruebas de Aprovechamiento (PAA)
- Pruebas de Aprovechamiento Academico English Section (ESLAT) — Use in testing non-native speakers of English when the language of instruction is English. This test can be used for students enrolled in ESL programs and students enrolled in programs with ESL components.
- Pruebas de Aprovechamiento Academico Spanish and Mathematics Section — For students where Spanish is the native language and the language of instruction, on the condition that both sections are given.
- Prueba de Aptitud Academica (PAA) — For use where Spanish is both the student's native language and the language of instruction
- Scholastic Aptitude Test (SAT)
- Secondary Level English Proficiency Test (SLEP) — Forms 1,2, or 3; Cut-Score is the 50th Percentile
- Spanish Assessment of Basic Education Test (SABE) — Level 6; Cut-Score is 2/3rds of a standard deviation below the mean
- Stanford Test of Academic Skills — 2nd Edition, Forms E and F, Levels 1 and 2
- Stanford Achievement Tests, Abbreviated, 8th Edition — Form J, Task 1, 2, and 3, Complete and Basic Batteries
- Test of Adult Basic Education (TABE), Level A, Forms 5 or 6, or survey form, Level D, Forms 5 or 6, survey form
- Test of English as a Foreign Language (TOEFL) — Cut-score must be at least 450
- Tests used by States for assessing the basic skills of entering postsecondary students — Examples of applicable tests are those approved for such use in state education systems in New Jersey, Florida, and Texas
- Wonderlic Personnel Test, Forms I, II, APT, or EM
- Wonderlic Scholastic Level Exam, Forms IV, V, T-51, or T-71

The **Federal Register** notice mentions the following considerations when selecting a test:

Selecting a Test

Relevance of test to educational program ... whether the skills and abilities assessed are among those considered important for successful completion of a student's proposed program of study.

Level of difficulty of test ... whether the overall level of difficulty of the test is appropriate to the population of prospective students being assessed.

Native language ... students whose native language is not English should be allowed to take a test that is offered in their native language if the course is taught in that language.

Tests for handicapped students ... students with physical handicaps should be provided with appropriate assistance in test-taking, in accordance with guidelines developed by the American Educational Research Association, the American Psychological Association, and the National Council of Measurement in Education.

Administering and scoring the test

These tests must be administered in accordance with the procedures specified by the publisher of the test. If a form or test has multiple parts, *all* parts must be used in order for the test to be valid. In evaluating the test results, a school may not establish a passing score (cut-score) that is lower than one full standard deviation below the mean for that examination.

School must make GED program available

A school that admits students who do not have a high school diploma or recognized equivalent must make a GED preparatory program available to its students. The course does not have to be provided by the school itself, and the school is not required to pay the costs for the program. The GED program must be offered at a place that is convenient for the students, and the school must take reasonable steps to ensure that its students have access to the program, such as coordinating the timing of its program offerings with that of the GED program. The school must provide information about the availability of the GED program to affected students. The GED program must be proven successful — such programs include GED programs that are conducted by State and local secondary school authorities, as well as programs for which the school has documentation that statistically demonstrates the success of the program.

The law does not require a school to verify that a student is enrolled in a GED program, or to monitor the student's progress in the program. However, the Department recommends that the financial aid administrator collect documentation that the student has completed the GED program and earned a GED. A student who does not have a high school diploma or recognized equivalent is not required by law to enroll in a GED program. However, the school may choose to make enrollment a requirement of admission. A student may not receive SFA funds for the GED program, although he or she may be paid for postsecondary coursework taken at the same time as the GED coursework, including remedial coursework.

REMEDIAL COURSEWORK, STUDY AT POSTSECONDARY LEVEL

Remedial coursework

Remedial coursework is work that prepares a student for study at the postsecondary level. However, a student generally may not be paid for remedial work by itself. The student must be enrolled in an eligible program at the school, and the remedial coursework must be necessary for the student to pursue the eligible postsecondary program.* If a student's acceptance into the eligible program is conditional on the completion of the remedial work, the student is not yet enrolled in an eligible program, and cannot be paid for the remedial coursework.

The regulations recognize that a limited amount of remedial coursework at the high school level, not the elementary school level, may be considered a part of the student's postsecondary program.

Including noncredit coursework for SFA payments

Schools often give no academic credit (or only reduced credit) for remedial coursework. To be able to include noncredit remedial hours in the student's enrollment status for financial aid payments, the school must find how many hours of study the course requires (both classroom and homework hours), and compare those hours with the hours required for nonremedial courses in a similar subject. The school should use the same number of credit or clock hours for the remedial course as for a nonremedial course that requires a comparable number of classroom and homework hours. The hours assigned to a noncredit remedial course are added to the hours of regular coursework to find the student's enrollment status for purposes of the SFA programs. This affects whether the student is paid as a full-time, 3/4-time, or 1/2-time student in the Pell Grant Program, and whether the student is considered to be enrolled at least 1/2-time for other programs. In addition, the tuition paid for noncredit remedial hours may be included in the student's cost of attendance.

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* Note eligible program exception for prerequisite coursework. This coursework may be remedial in nature (pg. 2-6).

High school coursework excluded

Noncredit remedial hours cannot be included in the enrollment status or cost of attendance if the course is a part of a program that leads to a high school diploma or its recognized equivalent, even if the course is required for completion of the postsecondary program. In addition, a noncredit remedial course cannot be included if the educational level of the course would not, after one year's time, adequately prepare the student for postsecondary study.

There is a limit on the amount of noncredit or reduced-credit coursework that can be included in a student's enrollment status or cost of attendance. The school may not take into account more than one academic year's worth of non-credit remedial coursework (the equivalent of 30 semester hours, 45 quarter hours, or 900 clock hours) for any individual student. However, courses in English as a second language do not count against the limit.

Student may not be enrolled in elementary/ secondary school

The Technical Amendments of 1987 added a provision that a student may not receive SFA funds if the student is enrolled in an elementary or secondary school program at the same time as the postsecondary program. Note that a student attending classes leading to a GED is not considered to be enrolled in a secondary school, and the student may not receive aid for these courses. A school, through its normal admissions procedure, should be able to determine a student's previous educational experience, including whether that student is still enrolled in elementary or secondary school. A school must document that determination.

ENROLLMENT STATUS

Pell excludes less than half-time

For 1992-93, the Pell Grant Program requires a student to be enrolled at least hal time. For the campus-based programs, the school may fund students who are attending less than half time. For the campus-based programs, schools must make a reasonable proportion of its allocation available to part-time students if the school's allocation was directly or indirectly based on the needs of part-time students.

Half-time for Pell Grant and campus-based programs

The chart on the next page shows the minimum standards given in the Pell Grant and campus-based regulations for half-time enrollment. (A school may set a higher standard for half-time enrollment if it wishes.) The Pell Grant regulations also set minimum standards for 3/4-time and full-time enrollment, because the Pell Grant calculations are based on the student's enrollment status (for term, credit hour students only). See Section Two of Chapter Four for more information on enrollment status and Pell Grant calculations.

If the student's program is based on --	The minimum hours for half-time status are --
Semesters Trimesters Quarters	6 Semester hours or 6 Quarter hours per term
Clock hours	12 Clock hours per week
Credit hours without terms	12 Semester hours or 18 Quarter hours per academic year

The guaranteed loan programs require a student to be enrolled at least half time to receive aid. A half-time student must be taking at least one-half the workload of a full-time student, as defined by the school. The school determines if a student is taking a full-time academic workload based on standards applicable to all students in that student's program.* The student's full-time workload may include any combination of courses, work, research or special studies, whether credit or noncredit.

Note that the student's enrollment status is important for deferment purposes. A student who has previous guaranteed loans that have entered repayment can only qualify for the in-school deferment if he or she is enrolled full time. (A "new borrower" for Stafford or SLS can be eligible for a deferment as a half-time student under certain conditions, as discussed in Chapter Ten.)

SATISFACTORY PROGRESS

Policy for satisfactory progress

The regulations for satisfactory progress were initially published in October of 1983, and were republished (December 1, 1987) with only minor changes. The regulations require schools to develop and apply a consistent and reasonable standard of academic progress, and note the basic elements of a policy that measures satisfactory progress. A school must have a satisfactory progress policy to carry out the statutory requirement that a student must be making satisfactory progress to be eligible for aid under the SFA programs.

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* A student at a vocational school is full time if he or she is taking at least 24 clock hours per week, or 12 semester or quarter hours, or its equivalent. A correspondence student is considered a half-time student.

Consistency

The school's satisfactory progress policy for students receiving aid under the SFA programs must be at least as strict as the policy used for students who do not receive SFA aid. The policy must be applied consistently to all students within identifiable categories of students (such as full-time or part-time, graduate or undergraduate, etc.). And the policy must conform to the standards of the school's accrediting agency if the school is accredited by a nationally recognized accrediting agency that has established satisfactory progress standards.

Qualitative and quantitative progress

The school's academic progress policy must include a qualitative measure of the student's progress, such as a grade point average. But a grade point average alone is not a sufficient measure of progress. For instance, a student might enroll for 12 credits a semester, but withdraw from 2 classes before failing. The student might have an "A" average in the two remaining classes, but may not be making satisfactory progress in the program. To accurately measure the student's progress in the program, the satisfactory progress policy must have a *quantitative* measure of progress, as well as a qualitative measure.

Maximum time-frames and increments

To quantify academic progress, a school must set a maximum time frame in which a student is expected to finish the program. As an example, a school might set a maximum time-frame of five academic years for a student to complete a four-year program. To ensure that a student is making quantitative progress throughout the course of study, the school must assess the student's quantitative progress at least once an academic year. (The regulations use the term "increments" to describe the measurement of progress at different stages of the student's academic program.) This incremental assessment of progress compares the number of hours the student attempted to the number of hours the student successfully completed, to see if the student is progressing at a rate that will allow him or her to finish the program within the maximum time frame.

EXAMPLE

The preamble to the final regulation (October 6, 1983) gave an example of a maximum time-frame that a school might set: 5 academic years of work attempted, for a student enrolled in a program that requires 4 academic years of work for graduation.

To express this example in terms of credit hours, imagine that two students, George and Jane, are enrolled in a 4-year microbiology program that requires 120 semester credits for graduation. Under the school's policy, the maximum time-frame for completing the program is 5 academic years, which equates to 150 credit hours attempted. Both students enroll in 5 classes each semester (15 credits). After one year, George has earned 27 credits and Jane has earned 30 credits. After two years, George has earned 45 credits and Jane has earned 51 credits. Are George and Jane making satisfactory progress in the course of study?

SOLUTION

Because the school has set a maximum time-frame of 5 years (150 semester hours) to complete a 4-year (120 semester hours) program, a student must successfully complete 80% of the work attempted to be making satisfactory progress.

Both George and Jane attempted 30 credit hours in the first year.

80% X 30 credit hours = 24 credit hours

Because both students successfully completed at least 24 credit hours in that year, they both were making satisfactory progress entering their second year of study.

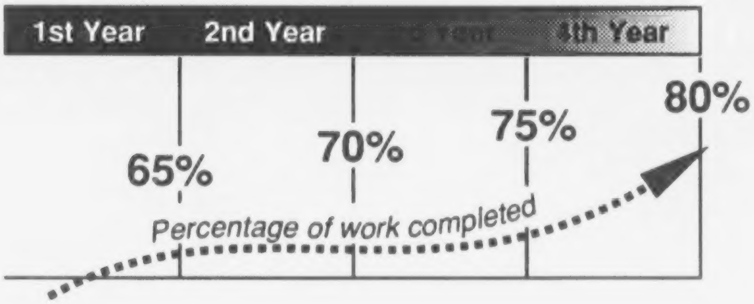
After two years of study, both students had attempted 60 credit hours, and had to have earned 48 credit hours to be making satisfactory progress. Therefore, Jane was making satisfactory progress at the end of the second year (with 51 credit hours), but George was not making satisfactory progress (only 45 credit hours earned).

Part-time and summer students

In the preceding example the school has established a minimum percentage (80%) of hours the student must complete each academic year. Adjustments would have to be made if either student was attending for fewer hours. For instance, if George had enrolled in half as many classes, he would only have attempted 30 credit hours after two years, and would only have been expected to complete 24 credit hours at that time. The school's policy should also specify how hours taken in summer school will affect the quantitative measure of progress.

Graduated standard

Schools may use a *graduated* completion percentage for each year. For instance, a school might use a more lenient completion standard in the student's first academic year, but gradually increase the completion standard during the course of study to ensure that the student will complete the program requirements within the maximum time frame.



Standard must be cumulative

Two other points need to be made regarding the quantitative standard: the standard must be cumulative and it must include any periods of enrollment in which the student did not receive aid from the SFA programs. The quantitative standard is an academic measure of a student's progress towards completion of the program, and must take into account the student's academic performance throughout the course of study, regardless of whether the student received aid.

Time frames at clock-hour schools

Because students are only paid for "hours earned" in clock-hour programs, the concept of "hours attempted" is not used as a measure of satisfactory progress. Instead, the maximum time frame for a clock hour program should be based on calendar time (in weeks or months). For instance, if a school offers a 900 clock hour program that normally takes 8 months to complete, it could set a maximum time frame of 10 months for completion of the program. Thus, a student would have to complete the first 450 hours of the program within five months to be making satisfactory progress.

Additional elements

The regulations further state that a satisfactory progress policy should explain how withdrawals, incomplete courses, repeated courses, and noncredit remedial coursework affect the student's progress, and should include procedures for appealing a decision and reinstatement of aid. The preamble to the regulations also mentions that a school may decide that a student who does not meet the school's qualitative or quantitative standard is nonetheless making satisfactory progress during a probationary period, or because of mitigating circumstances.

Keep in mind that these regulations only list the elements necessary to measure satisfactory progress, such as a GPA, a maximum time frame, and increments. The actual standard is up to the school, and the school may include additional elements in its standards.

A more specific measure of satisfactory progress was added to the statute during reauthorization, for students who first received SFA program funds during the 1987-88 award year or later. The Higher Education Amendments of 1986 require a school to check the academic progress of a student at the end of each academic year (as defined by the school). At the end of the second academic year, the student must have either a C average or its equivalent, or have academic standing consistent with the requirements for graduation from the program. A school's satisfactory progress policy should define the "equivalent of a C average" if the school does not use letter grades, and "academic standing consistent with graduation requirements."

The preamble to the December 1, 1987 regulations gives a helpful example. A student has a 1.75 grade point average (using a scale of 0.0 - 4.0) at the end of two academic years in a four-year degree program. The school requires a 2.0 average *for graduation*, but it uses a graduated standard of progress (as discussed earlier), which requires a 1.75 average after two academic years. Therefore, the student does have academic standing consistent with the school's graduation requirements, even though the student does not have a cumulative C average.

Waivers for special circumstances

If a student does not have a C average or equivalent, or the required academic standing at the end of the second academic year, he or she may not receive further aid from the SFA programs, unless the school uses its discretion to waive the satisfactory progress requirement. The statute gives specific examples of cases where the school might choose to waive the satisfactory progress requirement for a student, such as an injury to the student, an illness of the student, or the death of a relative of the student. In addition, the school may choose to waive the satisfactory progress requirement for any case in which a student has experienced undue hardship as a result of special circumstances.

The statute also provides for the reinstatement of aid under the SFA programs for students who do not meet the statutory requirements for satisfactory progress at the end of their second academic year, but who achieve academic standing consistent with graduation requirements later in the course of study. A student may be paid for the grading period in which he or she regains satisfactory academic standing, but not for those periods when the student was not making progress.

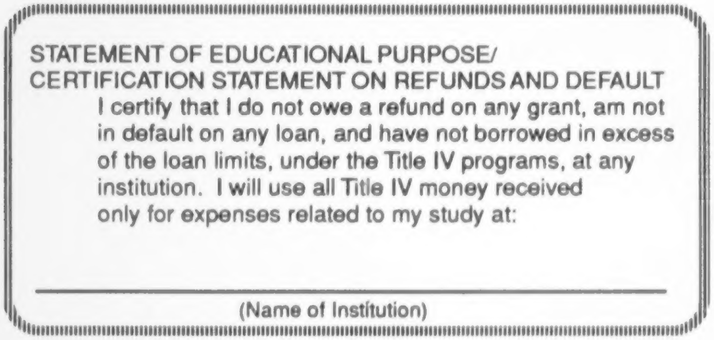
Please note that this new statutory requirement supplements but does not supersede existing regulations. Thus, a student could meet the statutory requirement of a C average for Federal student aid and still be ineligible because he or she was not making satisfactory progress as defined by the school's policy.

STUDENT CERTIFICATIONS AND STATEMENTS

To receive aid from the SFA programs, a student must sign a Statement of Educational Purpose, a Certification Statement on Refund and Default, and a Statement of Registration Status. These statements are printed on the back of Part 1 of the SAR, for the school's convenience, along with the Statement of Updated Information.

Statement of Educational Purpose

In the Statement of Educational Purpose, the student certifies that he or she will use any SFA funds received only for educational expenses. In the case of the guaranteed loan programs, the Statement must be filed with the lender. For this reason, the Statement of Educational Purpose is included on the loan application that the student fills out. For the Pell Grant and campus-based programs, the statement must be filed with the school that the student is attending. This statement must be filed once every award year.



STATEMENT OF EDUCATIONAL PURPOSE/
CERTIFICATION STATEMENT ON REFUNDS AND DEFAULT

I certify that I do not owe a refund on any grant, am not in default on any loan, and have not borrowed in excess of the loan limits, under the Title IV programs, at any institution. I will use all Title IV money received only for expenses related to my study at:

____

(Name of Institution)

The Statement of Educational Purpose is combined with the Certification on Refund and Default, which states that the student is not in default and does not owe a repayment on any SFA loan or grant. A student in default or repayment status is generally not eligible for SFA funds (see the discussion in the next subsection for exceptions).

Statement of Registration Status

The Statement of Registration Status is always filed with the school. A school cannot disburse funds or certify a loan application until this statement is filed. To complete the statement, a student must not only sign the statement, but also check the appropriate boxes, indicating either that the student has registered or the reason why the student is not required to register. As a matter of administrative convenience, a school may require all of its students to fill out a Statement of Registration Status. Or the school may choose to waive the signature requirement if it knows that a student is not required to register with the Selective Service. The most common cases in which a school would make this waiver are for a male student who is not yet 18 years old, or for a female student. A school may also waive signature of the registration statement if it already has a valid Statement of Registration Status on file for the student. However, the school must be careful to obtain a new Statement when the student's status changes. For instance, a first-year student might not be required to register because he was 17, but would be required to register a year later.

STATEMENT OF REGISTRATION STATUS

____ I certify that I am registered with Selective Service.
____ I certify that I am not required to be registered with Selective Service, because:

  ____ I am female
  ____ I am in the armed services on active duty (Note: Does not apply to members of the Reserves and the National Guard who are not on active duty)
  ____ I have not reached my 18th birthday
  ____ I was born before 1960
  ____ I am a citizen of the Federated States of Micronesia, the Marshall Islands, or a permanent resident of the Trust Territory of the Pacific Islands (Palau)

Statement of Updated Information

STATEMENT OF UPDATED INFORMATION

I certify that, as of the date I sign this statement, items 16 through 25, and either 26 and 27 (for independent students) or 81 and 82 (for dependent students) reflect any changes that have occurred since I applied other than any changes caused by a change in marital status.

The Statement of Updated Information is the student's confirmation that the information in three key items has not changed since the time the student first filled out the application. Students are required to update for any changes in their dependency status, household size (Item 26 or 81), or number in postsecondary education (Item 27 or 82), unless those changes were the result of a change in marital status.

These statements appear on the back of Part 1 of the Student Aid Report (SAR) to make it easier for schools to collect them. The school may collect these statements separately (on the school's financial aid application, for instance) if it wishes.* The school must keep the signed statement(s) on file for the duration of the record retention period (see Chapter Three, Section Seven).

LOAN DEFAULTS AND GRANT OVERPAYMENTS

In general, a student is not eligible for SFA aid if he or she is in default or owes a repayment on an SFA grant or loan. (In addition, the student would not be eligible to have a parent borrow a PLUS Loan on the student's behalf.) Similarly, a parent is ineligible to borrow a PLUS Loan if that parent is in default or owes a repayment on an SFA grant or loan. The General Provisions contain several exceptions to this blanket rule, as noted below.

Eliminating Pell Grant overpayments

If a student receives a Pell Grant overpayment, he or she may continue to receive SFA funds if the overpayment can be eliminated by reducing the later Pell Grant payments in the same award year. If the overpayment was the result of the school's error, and the school cannot eliminate the overpayment in the same award year, the school may continue to pay the student SFA funds if the student agrees in writing to repay the amount within six months. (See Chapter Four, Section Six for more information on Pell Grant overpayments.)

SEOG and SSIG overpayments

If a student receives an SEOG or an SSIG overpayment, he or she may continue to receive SFA funds if the overpayment can be eliminated by adjusting subsequent financial aid payments other than Pell Grants within the same award period. For instance, if the student received combined aid from the Pell Grant, SEOG, and Perkins Loan programs that exceeded his or her financial need, the student could continue to receive SFA funds if the later disbursements of the SEOG or the Perkins Loan for that year could be reduced by the amount of the overpayment.

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* Note that the statements as they appear on the SAR (and in this section) are different than the versions in the regulation, because some of the necessary information is already on the SAR. If you are collecting these statements separately, they must include the additional information required by regulation.

Satisfactory arrangements to repay loans

If a student is in default on a Perkins Loan (including NDSL), or a Stafford, SLS, PLUS, ICL, or Consolidation Loan, the student may continue to receive SFA funds if he or she has made satisfactory arrangements with the holder of the loan to repay the defaulted loan. Before a school may pay a student who is in default, it must receive a written statement from the holder of the loan that the student has made satisfactory arrangements. For an ICL, NDSL, or Perkins Loan, either the school that made the loan or the Department (if the loan was assigned) must certify that the student has made satisfactory arrangements to repay the loan. In the case of a guaranteed loan, or a Consolidation Loan, the guarantee agency or the Secretary (for federally insured loans) must determine that the student has made satisfactory arrangements to repay the loan.

Note that any loans that have been discharged in bankruptcy are not considered to be in default. However, if the borrower is applying for another SFA loan, the school (for Perkins) or guarantee agency (for GSL) may require the borrower to have an endorser to obtain a new loan. Note that the school may also refuse to make a Perkins Loan or refuse to certify a GSL application if it believes that the bankruptcy indicates that the student will be unwilling to repay the loan.

A loan is still considered to be in default if a portion of the loan was "written off" by the school or agency collecting the loan. The borrower must reaffirm the debt to become eligible for further SFA assistance. However, if payments on the loan were made involuntarily (for instance, by garnishment of the borrower's wages or an IRS offset) the student is eligible for further SFA assistance.

Loan rehabilitation program

The Department administers a program that offers defaulted borrowers an incentive to pay back their Guaranteed Student Loans. If a student has met the requirements of the Department's loan rehabilitation program, then the student would again be eligible for SFA funds (assuming all other eligibility conditions have been met). (See Chapter Ten, Section Six for more information on loan rehabilitation provisions.)

If a student owes a repayment of a Pell Grant or other SFA aid, the Department may flag the student's application data when it is received by the Central Processing System. The student will receive a Student Aid Report (SAR) with a comment explaining that a repayment is owed. No PGI or FC will be printed on the SAR—the student is not eligible for any SFA funds until he or she repays the debt, or makes satisfactory arrangements to repay the debt with the Department.

Certification required

The student is required to certify that he or she is not in default or overpayment status on an SFA loan or grant. As a convenience to the school, this certification is printed on the Student Aid Report as a part of the "Statement of Educational Purpose/Certification Statement on Refund and Default." However, the certification may be collected on other documents, if the school chooses. If you collect this statement on another document, you must add a line for the student's Social Security Number (or Student Identification Number, if the student does not have a Social Security Number). The law requires that the student include this information with the certification, but the line is omitted on the Student Aid Report, because the student's Social Security or identification number is already printed on the Report.

Verification Hold File

This certification is intended to make it easier for schools to confirm the student's eligibility. The school may rely on the student's signed statement that he or she is not in default, unless the school has other information (either in its own records or from a financial aid transcript received from another school) indicating that the student is in default or owes an overpayment. If there is conflicting information, the school may not pay the student or certify loan applications until it is resolved. In addition, the student's record will be placed in the "Verification Hold File," which is a subsystem of the CPS. A student whose application is in the "Hold File" will receive an invalid SAR. The SAR will instruct the student how to resolve the matter and restore his or eligibility for Federal student aid.

Loan Default Match

In 1990-91, the Department implemented a Loan Default Match. The match is also in place for the 1992-93 award year. This system identifies aid applicants who have defaulted on a Federal Insured Student Loan (FISL) or other SFA loan held by the Department. If an applicant is found to be in default and has not made satisfactory arrangements to repay, the following comment will appear on the SAR:

Student has defaulted

Our records indicate that you are in DEFAULT on a Federal student loan. You are not eligible to receive any Federal student financial aid until your account has been resolved. You must contact the U.S. Department of Education by calling 1-800-XXX-XXXX (State residents) or 1-800-XXX-XXXX (non-residents) or by writing to the Department of Education, . . . (See the list on the next page for addresses and phone numbers of the Department's Regional Offices for Debt Collection.)

A student who is determined to be in default, but has made satisfactory repayment arrangements, will receive the following warning statement on the SAR:

Student has defaulted but made satisfactory arrangements to repay

WARNING: Our records indicate that you are in DEFAULT on a Federal student loan. Since you have made satisfactory arrangements to repay this loan, you may receive additional Federal student aid at this time; however, failure to make scheduled payments will result in your being denied future Federal student aid. If you have questions concerning your account, call 1-800-XXX-XXXX (State residents) or 1-800-XXX-XXXX (non-residents). (See the list below for addresses and phone numbers of the Department's Regional Offices for Debt Collection.)

If an applicant's default status cannot be determined due to insufficient information or because of operational difficulties, the following comment will appear on the SAR:

Default status not determined

To receive Federal student aid, you cannot be in default on any Department of Education student loan. We were unable to determine whether you are in DEFAULT. Contact your FAA for more information.

No comment will appear on the SAR if the applicant is not listed in the Department's data base as having defaulted on a prior loan.

Further information on the Loan Default Match is provided in Dear Colleague (GEN-91-6) dated January 1991.

Department of Education Regional Offices for Debt Collection

Department of Education
P.O. Box 2287
Atlanta, GA 30370-2287
1-800-282-1050 (Georgia residents)
1-800-241-4710 (non-residents)

Department of Education
P.O. Box 8422
Chicago, IL 60680-8422
1-800-972-3189 (Illinois residents)
1-800-621-3115 (non-residents)

Department of Education
50 United Nations Plaza
Room 250
San Francisco, CA 94102
1-800-652-1780 (California residents)
1-800-227-3237 (non-residents)

A new question (number 36) has been added to Section F of the Application for Federal Student Aid. The question asks whether the student is in default on a Federal student loan or owes a refund on a Federal student grant. Students who report that they are in default or owe a refund (or both) will receive a comment on their SAR telling them that they are ineligible for aid until their account is resolved and directing them to contact their aid administrator. Most of these students will still receive a calculated Pell Grant Index and Family Contribution number, but the aid administrator is responsible for determining whether or not they are eligible for aid. Note, however, that any students who are listed in the Department of Education's records for over payments will not receive a SAR with a comment explaining that they are ineligible for aid until they repay the overpayment.

ANTI-DRUG ABUSE ACT CERTIFICATIONS

Omnibus Drug Initiative Act

Beginning with the 1989-90 award year, students must certify compliance with the Omnibus Drug Initiative Act of 1988. As a grant recipient from a Federal program, a student who wishes to receive a Pell Grant is required to certify that he or she will not engage in the unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance in conducting any activity in connection with the grant.*

Certification for Pell Grant recipients

ANTI-DRUG ABUSE ACT CERTIFICATION (PELL GRANT ONLY)

I certify that, as a condition of my Pell Grant, I will not engage in the unlawful manufacture, distribution, dispensation, possession or use of a controlled substance during the period covered by my Pell Grant.

(Student's Signature)

(Date)

The certification statement is printed on the back of the Student Aid Report, with the other eligibility statements discussed in this section.

Also under the Omnibus Drug Initiative Act, schools that receive campus-based funds are required to certify (on a form provided by the Department) that they will provide a drug-free workplace. The school certification is discussed in Chapter Three, Section Two.

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* Note that the Act gives courts the authority to suspend eligibility for Federal student aid when sentencing an individual convicted of possession or distribution of a controlled substance. A student who has been denied aid will be identified on the SAR through a tape match with Department of Justice records.

BORROWING IN EXCESS OF LOAN LIMITS

The Higher Education Amendments of 1986 state that a student who in any academic year borrows more than the annual loan limits under the SFA loan programs loses his or her eligibility for further SFA assistance for that academic year.

Of course, this should be a relatively unusual occurrence, because the school awarding the Perkins or ICL loan, or certifying a guaranteed loan application is required to take into account the student's previous loans.

MAXIMUM LOAN AND GRANT LIMITS

	Annual	Cumulative	
Pell Grant	**$2,400**	*(No dollar limit; however, note 5 to 6-year limit on eligibility)*	
SEOG	**$4,000**	**NONE**	
Perkins Loan	**NONE**	**$4,500**	*First two years undergraduate study*
		$9,000	*More than two years undergraduate study*
		$18,000	*Graduate/professional study*
Stafford	**$2,625**		*First two years undergraduate study*
	$4,000	**$17,250**	*More than two years undergraduate study*
	$7,500	**$54,750**	*Graduate/professional study*
SLS	**$4,000**	**$20,000**	
PLUS	**$4,000**	**$20,000**	

(To account for loans received at other schools, the school must request a financial aid transcript from each school the student previously attended — see Chapter Three, Section Three.) However, excess borrowing could occur when a student uses different names or social security numbers to apply for aid, or when a transfer student fails to tell the financial aid administrator about schools previously attended.

A student who has borrowed in excess of the loan limits may regain eligibility for SFA funds by repaying the excess amount that was borrowed.

REGISTRATION WITH SELECTIVE SERVICE

Selective Service System

A student must be registered with the Selective Service System (if required to register) before he can receive aid from the SFA programs. In general, males between the ages of 18 through 25 are required to register with the Selective Service System.

The major exceptions to the registration requirement are included on the Statement of Registration Status. In addition to those who are female or out of the age range for registration, students who are in the armed services on active duty,native residents of Palau, or citizens of the Marshall Islands or the Federated States of Micronesia, are not required to register.

There are several other categories of students who are not required to register with the Selective Service, in addition to those listed in the Statement of Registration Status:

Students not required to register (assuming the person was not required to have registered before)

1. Students who are unable to register due to being hospitalized, incarcerated, or institutionalized.
2. Students who are enrolled in an officer procurement program at the Citadel, North Georgia College, Norwich University, or Virginia Military Institute.
3. Students who are commissioned officers of the Public Health Service on active duty and members of the Reserve of the Public Health Service.

Only a few schools will have students in these categories. Therefore, to conserve space, the Department has not included them on the Statement of Registration Status. Instead, the regulations exempt students in these categories from filing the Statement. However, the school should be careful to note in its files the reason why the student was not required to provide a Statement.

The Department of Education is taking several steps to ensure that students register with the Selective Service System when required. To make it easier to register, the financial aid application and the SAR include boxes which a student can use to register with Selective Service.

Records not matched

The Department is continuing to match student aid applications with registration records from Selective Service. If we are unable to locate a registration record for an applicant, one of the three following comments will appear on the student's SAR:

Comment 1

We were unable to confirm or complete your registration with Selective Service. If you have not yet registered, you must either check the Selective Service Registration box on Part 2 of your SAR, or obtain and complete a Selective Service registration form available at your local post office. Please contact your FAA for assistance.

Comment 2

The Selective Service has not confirmed your registration or exemption status. To receive Federal student financial aid, a male who is required to register with Selective Service must be registered before aid can be disbursed. If you are a female or not yet 18, you are not required to register. However, if you are a male between the ages of 18 through 25, you must contact Selective Service on 708-688-6888 to resolve any problems regarding your registration status.

Comment 3

Your Selective Service registration or exemption status must be confirmed before you can receive any Federal student financial aid. To register, obtain and complete a Selective Service registration form available at your local post office. If you believe that you are already registered, exempt from registration, or not required to register, contact Selective Service on 708-688-6888.

Student must obtain registration acknowledgment

A student who receives one of these comments must reconcile any conflict with Selective Service. Once the conflict is resolved, the student will receive a registration acknowledgment that is to be submitted to the financial aid administrator. (NOTE: The financial aid administrator must withhold all SFA funds until the student's Selective Service registration or exemption status is confirmed.)

Records matched

When there is a match with Selective Service, the following comment will appear on the student's SAR.

Your registration or your exemption status has been confirmed by Selective Service.

Students who receive this comment are still required to fill out the Statement of Registration Status.

When a student checks the Selective Service box on either the financial aid application or the SAR, the student's information is forwarded to Selective Service for registration. Students who provide incomplete information or who are over the age limit for registration will receive this comment.

We could not send your name to Selective Service as you requested either because you did not give us enough information or because you are over the age limit for registration. If you are at least 18 but not yet 26, you may register by checking the Selective Service Registration box on Part 2 of this SAR. You must also correct the information printed in boldface type on Part 2. You may also register by obtaining and completing a Selective Service Registration form available at your local Post Office. If you are a male who has reached the age of 26, you cannot use this SAR to register. You must contact Selective Service on 708-688-6888 to resolve your registration status before you can receive Federal student aid.

In recent years, a number of students have been denied aid because they failed to register with the Selective Service before their 26th birthday. The Selective Service System will only register males between the ages of 18 and 26, leaving these students with no way to remedy their earlier failure to register. The Department of Defense Authorization Act amends the registration requirement for student aid to allow a school to pay a student who failed to register when required, if the student establishes that her did not "willfully avoid registration." The student must obtain an advisory opinion from The Selective Service Office of General Counsel and submit it to the school. The financial aid administrator may rely on Selective Service's recommendation. The financial aid administrator may also call Selective Service to confirm a student's registration status. If the student willfully avoided registration, and received SFA funds, the student is liable for those funds.

Following are excerpts from routine advisory opinion letters used in determining a student's eligibility for student financial assistance, job training, U.S. citizenship and Federal employment benefits. Students in situations not fitting these categories will receive letters that are tailored to their predicament.

The Department considers the following opinions to be "favorable" for purposes of determining eligibility for SFA programs:

Born before January 1, 1960

If the student was born before January 1, 1960 he may receive one of two comments from the Selective Service: (1) If you were born before March 29, 1957, you were required to register with the Selective Service. However, the statute of limitations for failure to register ended the possibility of prosecution on March 28, 1983. (2) If you were born between March 28, 1957 and January 1, 1960 you were and are exempt from registration with the Selective Serice.

Born after 1959

> "Based on our records, you were required to register with the Selective Service. Our records do not indicate why you failed to register with the Selective Service. We have no evidence that suggests whether or not your failure was knowing and willful. The final decision regarding your eligibility for the right, benefit or privilege is within the authority of that agency. You should submit this letter to that agency for its consideration."

Military Service Age 18-26

> "You were required to register with the Selective Service within 30 days after your discharge from military service if you had not yet reached age 26 at that time. In any event, you cannot register after reaching age 26. The final decision regarding your eligibility for the right, benefit or privilege is within the authority of the agency administering the right, benefit or privilege you seek. You should submit this letter to that agency for its consideration."

Prior Military Service

> "If you served in the Armed Forces of the United States on active duty continuously from the date you attained age 18 until the date you attained age 26, you are exempt from Selective Service registration."

Incarceration Age 18-26

> "If you were incarcerated continuously from the date you attained age 18 until the date you attained age 26, you are exempt from Selective Service registration."

Alien over age 26

> "You were exempt from registration with the Selective Service between your 18th and 26th birthdays only while you were in a lawful nonimmigrant status; i.e., during the period of a valid visa and a current INS Form I-94. The exemption ended when your lawful status as a nonimmigrant ended before you reached age 26. You were required to register with the Selective Service within 30 days after the date or terms of the INS Form I-94 you were issued when you entered the United States. You have now attained age 26 and, by law, can no longer register. The final decision regarding this matter is within the authority of the agency administering the right, benefit, or privilege you seek. You should submit this letter to that agency for consideration in deciding whether it will grant or deny your request for that right, benefit, or privilege."

Alien who entered the U.S. after age 26 or lawful nonimmigrant until age 26 or alien without notice

"If you entered the U.S. for the first time after you attained age 26, you are exempt from registration with the Selective Service. If you entered the U.S. for the first time as a lawful nonimmigrant on a valid visa issued under Sect. 101(a)(15) of the Immigration and Nationality Act with an INS Form I-94 before you attained age 26, and remained in the U.S. within the time or terms shown on the INS Form I-94 until you attained age 26, you were and are exempt from registration. If you were in any status other than described above, you were required to register with the Selective Service System before you reached aged 26. If you were required to register before reaching age 26 and failed to do so, our records do not indicate why you failed to register with the Selective Service. Any explanation to justify your failure to register must be made to the agency administering the right, benefit or privilege you seek. The final decision regarding your eligibility for the right, benefit or privilege is within the authority of that agency. You should submit this letter to that agency for its consideration."

The Department considers the following opinions to be "unfavorable" for purposes of determining eligibility for SFA programs.

Registration not found, go register

"This name is not among our registration files. A man must register if he was born after 1959 and has not yet reached age 26. The registration requirement applies to men who have reached age 18. Failure to register is a crime, punishable upon conviction by up to 5 years imprisonment and a $250,000 fine. If required to register, the man should promptly go to the nearest U.S. Post Office or, if he is outside the U.S., to any U.S. Consulate to complete and submit a Registration Form. As soon as we receive the form, his name will be entered in our files as a registrant."

General

"Our records indicate that we sent {Number} letter(s) to you reminding you of the requirement to register and urging you to do so. The letter(s) was (were) sent to the following address on the date(s) indicated:...In the circumstances, your failure to register appears to have been knowing and willful. Any explanation to justify your failure to register must be made to the agency administering the right, benefit or privilege you seek. The final decision regarding your eligibility for the right, benefit or privilege is within the authority of that agency. You should submit this letter to that agency for its consideration."

Bad Reason

"Based upon our records and your explanation for failing to register with the Selective Service, your failure appears to have been knowing and willful. Any explanation to justify your failure to register must be made to the agency administering the right, benefit or privilege you seek. The final decision regarding your eligibility for the right, benefit or privilege is within the authority of that agency. You should submit this letter to that agency for its consideration."

Registration sent, but not received

"If, as you state in your letter, you registered previously, we have no idea why we have not received the registration record for recording in our records. Our records indicate that we sent {Number} letter(s) to you reminding you of the requirement to register and urging you to do so. The letter(s) was (were) sent to the following address on the date(s) indicated:...In the circumstances, your failure to register appears to have been knowing and willful. Any explanation to justify your failure to register must be made to the agency administering the right, benefit or privilege you seek. The final decision regarding your eligibility for the right, benefit or privilege is within the authority of that agency. You should submit this letter to that agency for its consideration."

Reconsideration denied, referred to administering agency

> "The Selective Service System has no authority to waive the requirement of the law. It can only state what our records reveal and on the basis of those records, indicate whether your failure to register appears to be knowing and willful. Any explanation, excuse, or mitigation of what our records reveal must be made to the office or agency responsible for administering the right, benefit, or privilege you seek, as I have stated to you previously. In any event, any explanation, excuse, or mitigation you may choose to offer will require you to support that offer with documentation. It is not likely you will be successful without documentation."

Exemptions

The student will receive a letter indicating he is exempt from registration with the Selective Service if the student (1) is in the officer procuremnt program at the Citadel, Norwich University, the Virginia Military Institute, or North Georgia College, (2) has a validated disabling condition, (3) is incarcerated, (4) is on active duty with one of the military services of the U.S., (5) has nonimmigrant alien status. The student must register if the condition ends before the student reaches age 26.

MEMBERS OF A RELIGIOUS ORDER

A student may not receive a Pell Grant or campus-based aid if he or she is a member of a religious community, society, or order that directs the student's course of study or provides subsistence support to the student. Members of a religious order are not considered to have financial need.

INCARCERATED STUDENTS

If a student is not incarcerated, that is, is on parole, he or she is eligible for a Stafford or SLS loan. If a student is incarcerated and is scheduled to be unconditionally released (without parole) by the beginning of the repayment period, the student is eligible for a Stafford or SLS loan.

SPECIFIC PROGRAM REQUIREMENTS

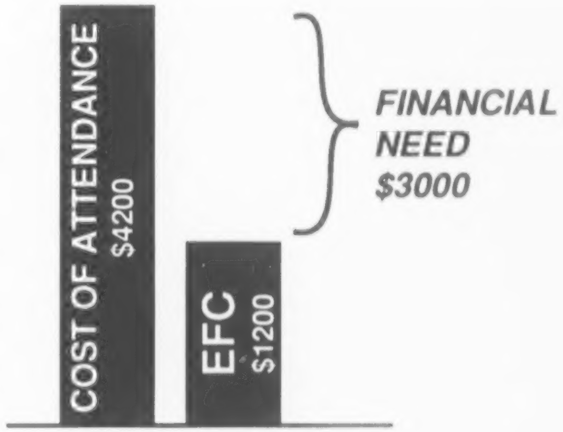
In addition to these general requirements, some programs have other requirements. For instance, the Pell Grant Program requires the student to submit the Student Aid Report while enrolled and eligible for payment. These specific program requirements are discussed for each program in Chapters Four through Ten.

SECTION TWO:
OVERVIEW OF FINANCIAL NEED

With the exception of the SLS and PLUS programs, a student must demonstrate financial need to receive aid from the SFA programs. Unlike scholarship programs that may award funds based on academic merit or area of study, need-based aid is awarded to students based on their family's need for assistance. The concept of need is not solely a requirement for Federal aid, but has been used for many years by schools to award their own aid.

Financial need is simply defined as the difference between the student's cost of education and the student's ability to pay those costs.

The educational costs for the SFA programs are defined by statute, and are fairly easy to calculate based on the student's tuition and fee charges, living situation (on-campus, off-campus, off-campus with parents), and other factors. However, the student's ability to pay, known as the "expected family contribution," is a much more complicated assessment. (The expected family contribution figure for the Pell Grant Program is known as the Pell Grant Index (PGI) and for the campus-based and guaranteed loan programs is the family contribution (FC).)



***Financial need:** the difference between the cost of education and the amount the family can contribute (EFC).*

The purpose of this section is to review the concept of financial need, and to show how it is affected by changes to the law. We will discuss need analysis and the independent student definition first, and then the cost of attendance, overawards, and packaging.

NEED ANALYSIS

Sometimes the term "need analysis" is used to describe the overall process of finding the student's financial need (i.e., cost of attendance minus the expected family contribution). In its more technical sense, "need analysis" refers only to calculating the expected family contribution.

Need analysis defined by law

For the SFA programs, there are two major need analysis methodologies, which have been defined in the law (Higher Education Amendments of 1986). The Pell Grant formula produces a Pell Grant Index (PGI). For the campus-based and Stafford Loan programs, the school must use the Congressional Methodology (CM), which produces a Family Contribution (FC) figure. If you want to know more about how the PGI or FC is calculated, see *The Pell Grant Formula 1992-93* or *The Congressional Methodology 1992-93*.

The Pell Grant and CM formulas

The Pell Grant formula and the CM formula are similar in that they analyze a family's income, expenses, and (in some cases) assets to arrive at the expected family contribution. There are different versions of the Pell and CM formulas, for dependent and independent students.

Similarities and differences

Though both formulas use mostly the same student/parent information, and use similar steps to analyze the information, there are many differences between the Pell Grant and the CM formulas. In particular, the formulas use different offsets, reserves, and assessment rates. For instance, both formulas use the home asset and home value line items on the application.* However, the Pell formula uses a flat reserve of $30,000 for home assets for most applicants, while the CM formula computes an "asset protection allowance" to be used as a reserve against all assets, based on the age of the older parent (or the student's age, for an independent student). The assessment rates for the family's assets are also very different, depending on whether you use the Pell or CM formulas.

In addition to the differences in the use of offsets, reserves, and assessment rates, the CM formula has some additional considerations, such as the Minimum Contribution from Income, and the adjustment for students whose period of enrollment is more or less than the standard nine months in the award year.

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* Unless the home assets are excluded from the formula for a dislocated worker or displaced homemaker, or the student qualifies for the simplified needs test.

The Higher Education Amendments of 1986 included modifications to both formulas for dislocated workers and displaced homemakers. Home assets are not counted for dislocated workers and displaced homemakers. In addition, for dislocated workers only, expected year income is used rather than base year income. (For the 1992-93 award year this means that 1992 income would be used rather than 1991 income.)

DISPLACED HOMEMAKER

A displaced homemaker generally means a person who

1. has not worked full time in the labor force for a substantial number of years (approximately five years or more), but has been a homemaker for those years (i.e., has worked in the home providing unpaid services for family members).
2. is currently receiving public assistance for dependent children in the home, or who has been dependent on public assistance or on the income of another family member, but is no longer receiving that income.
3. is unemployed or underemployed and is having trouble getting a job or getting a better job.

DISLOCATED WORKER

This is a classification used by State employment agencies (such as the State Employment Service or Job Service). "Dislocated worker" generally means a person who has been fired or laid off from work, or who was self-employed (such as a farmer) but is now unemployed because of poor economic conditions in the community or because of a natural disaster. The parent, student, or spouse must be classified as a dislocated worker by the State employment agency to qualify for the adjustments to the formula.

Schools are not required to document whether the student, parent, or spouse is a dislocated worker. However, you may request that the student provide such documentation. Any questions regarding the student's certification as a dislocated worker should be directed to the dislocated worker's hometown employment or job service office. See Dear Colleague GEN-88-16 for a State list of these offices. If you have questions about a person who is a resident of another State, please call the Federal Student Aid Information Center (1-800 4 FED AID) for the appropriate contact.

Simplified Needs Test

The Higher Education Amendments of 1986 established a "simplified needs test" for certain low-income families. The formula for the simplified needs test follows many of the same steps as the regular formula. However, the simplified formula does not count the student's veterans benefits, the family's assets, or make allowance for unusual medical/dental expenses or elementary/secondary tuition paid. In general, the simplified formula is used to calculate the PGI and the FC if the family's total taxed (or earned) income is $15,000 or less, and if the family members do not file a tax return, or they file the 1040A or 1040EZ. (See the *Pell Grant Formula 1992-93 and the Congressional Methodology 1992-93* for a more detailed explanation of the simplified formula.)

SPECIAL CONDITIONS

Parental responsibility

For 1992-93, the authority for a financial aid administrator to make adjustments to the Pell Grant Index to take into account changes in the family's financial situation has been rescinded. Instead, the Central Processing System will apply expected year income for base year income if the family meets one of the "Special Conditions" defined by the Department. A list of the Special Conditions is provided in the *1992-93 Counselor's Handbook for Postsecondary Schools.* For the most part, these are the same Special Conditions that were used prior to the 1988-89 award year.*

Definition

NOTES ON CONDITIONS

Partial loss of employment	This condition is intended to accommodate independent students who reduce their hours of employment to go to school, but who still have a job. It includes situations where the student has been working two jobs, and quits the job to go back to school.
Loss of employment	Includes situations where an independent student or spouse or parent of a dependent student has been fired, laid-off, or has retired or resigned. It also includes situations where the student or parent is on strike or on maternity leave or other leave of absence for more than ten weeks.
Loss of untaxed income	Includes the loss of child support, but it must be the total loss of child support for at least ten weeks.

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*Note that the law does not permit the use of expected year income based on the loss of assets, or a change in a dependent student's income. A student may only update information to show loss of assets (for instance, because of a hurricane or earthquake) if he or she qualifies for a Special Condition.

INDEPENDENT STUDENT DEFINITION

One of the most important decisions in need analysis is whether the student should be treated as a dependent or independent student. If the student is dependent on his or her parents, the student will have to include parental information on the financial aid application, and a parental contribution will be added to the student's contribution.

Traditionally, need analysis methodologies have assumed that parents have the primary responsibility to pay for their children's education. However, there have always been exceptions to this rule, for students who no longer have contact with their parents, non-traditional students who are too old to be considered the parents' responsibility, and other cases. Most financial aid applications ask several questions at the outset that decide whether a student will be considered dependent on their parents, or independent.

Higher Education Amendments of 1986

The Higher Education Amendments of 1986 significantly changed the definition of an independent student for 1987-88 and subsequent award years. In previous award years, the application asked questions that were difficult to verify, such as the length of time the student lived with the parents during the year, and how much support the parents gave to the student. The definition has been revised to use questions that are less subjective, and easier to verify. At the same time, financial aid administrators have been given the authority to make exceptions for students who have individual circumstances that make them independent, even though they do not meet the definition in the law.

Definition of an independent student

For the 1992-93 award year, a student is automatically independent if he or she:

1. *is at least 24 years of age by December 31, 1992;*
2. *is a veteran of the U.S. Armed Forces (includes students who were activated to serve in Operation Desert Storm);*
3. *is a ward of the court or both parents are dead;*
4. *has legal dependents other than a spouse.*

The student will also be considered to be independent if the school documents that one of the following circumstances exists:

5. *The student is married, or a graduate or professional student,* and will not be claimed as an income tax exemption by his or her parents for the 1992 tax year. (Note that a graduate or professional student is not eligible for a Pell Grant.)

6. *The student is a single undergraduate student,* and was not claimed as an income tax exemption by his or her parents in either 1990 or 1991, and demonstrates self-sufficiency for two years. The student is considered self-sufficient if he or she had total annual income and other resources of at least $4,000.

The two years used to demonstrate self-sufficiency are the two years before the student first received Federal student aid, beginning with the 1987-88 award year.

For instance, if the student received SFA funds for the first time in 1991-92, the two years are 1989 and 1990.

Independent students claimed as tax exemption

The law makes an important exception to the last two criteria (#5 and #6). Even if a student meets one of these criteria, the student would be considered to be dependent in the 1992-93 award year if the student was an independent student in the 1991-92 award year, but was claimed as an income tax exemption by another person (other than his or her spouse) in 1991. If the financial aid administrator is aware that a student is dependent based on this exception, the aid administrator must use the procedures described in the *Counselor's Handbook* to override the student's depen-

TERMS USED IN THE INDEPENDENT STUDENT DEFINITION

LEGAL DEPENDENT. Any person who lives with the student, receives more than half-support from the student, and will continue to receive more than half-support from the student during the award year. Also, the natural or adopted child of the student, or a child for whom the student is legal guardian, if the child receives more than half-support from the student (the child does not have to live with the student).

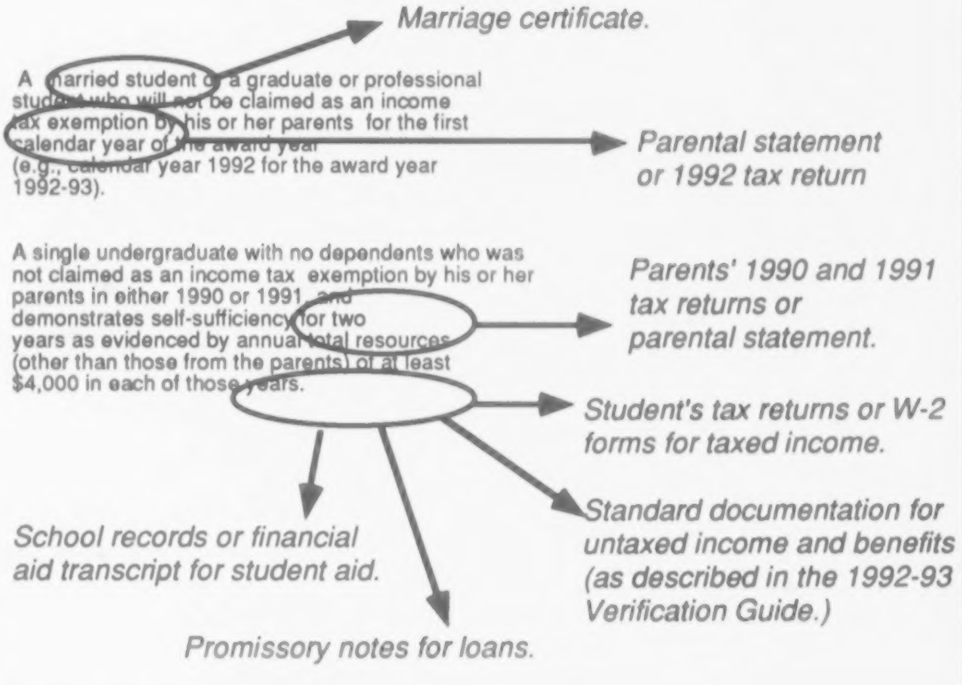
PARENT. A natural or adoptive parent, or a legal guardian who has been appointed by a court and specifically directed by the court to support the student.

RESOURCES. Includes not only traditional sources of income (such as wages, salaries, tips, interest and dividend income, untaxed income and benefits, fellowships and veteran's cash benefits), but also any student financial aid (except PLUS loans), and personal long-term cash loans used for educational purposes. As mentioned before, these resources may not include any support received from the student's parents.

dency status on the financial aid application. (The financial aid administrator may still use professional judgment to decide that the student is in fact independent despite this exception, in which case no override would be necessary — the dependency status on the application would be correct. The aid administrator must document in the student's file if professional judgment is used.)

Remember that the financial aid administrator is required to *document* that a student meets criterion 5 or 6 before paying the student under any SFA program. (The school may certify a Stafford or SLS loan application, but may not process the student's loan check until the documentation is provided.) The law does not specify the kinds of documentation that would show that a student meets a given criterion. The Department does not have the authority to issue regulations regarding the independent student definition, but considers the following documentation to be appropriate for each criterion:

INDEPENDENT STUDENT DOCUMENTATION (1992-93 AWARD YEAR)



A married student or a graduate or professional student who will not be claimed as an income tax exemption by his or her parents for the first calendar year of the award year (e.g., calendar year 1992 for the award year 1992-93).

Marriage certificate.

Parental statement or 1992 tax return

A single undergraduate with no dependents who was not claimed as an income tax exemption by his or her parents in either 1990 or 1991, and demonstrates self-sufficiency for two years as evidenced by annual total resources (other than those from the parents) of at least $4,000 in each of those years.

Parents' 1990 and 1991 tax returns or parental statement.

Student's tax returns or W-2 forms for taxed income.

Standard documentation for untaxed income and benefits (as described in the 1992-93 Verification Guide.)

School records or financial aid transcript for student aid.

Promissory notes for loans.

Tax return vs. parental statements

The Federal income tax return is preferable to the parental statement as documentation for 1990 and 1991 income. However, the criterion for married, graduate, or professional students refers to the tax exemptions claimed on the 1991 tax return, which cannot be filed until January 1992 at the earliest, which is midway through the award year. Therefore, in most cases, a student applying for aid in the 1992-93 award year should provide a statement signed by the parents that certifies that the parents will not claim the student as an exemption for that year. The financial aid administrator may also ask for a copy of the student's tax return, a marriage certificate, a promissory note, or other proof that the student meets the criteria for eligibility.

Professional judgment

In unusual circumstances, a student who does not meet any of these criteria may still be considered independent. The financial aid administrator at the student's school may use professional judgment to decide that a student is in fact independent, despite the student's answers to the questions on the application. The aid administrator must make this decision on an individual (case-by-case) basis, and must document the reasons for that decision in the student's file . (The student will have to use a Correction Application to apply as an independent student, and the financial aid administrator will have to use the procedures described in the *Counselor's Handbook* to override the student's dependency status as shown on the application.)

Please bear in mind that the aid administrator may only use this professional judgment to make a dependent student (based on the questions on the financial aid application) independent. An aid administrator cannot require a student who is independent under the statutory definition to file as a dependent student unless the student was independent in 1991-92 but was claimed a tax exemption in 1991, as described on the previous page. However, the financial aid administrator may adjust the FC for the campus-based and guaranteed loan programs to include a parental contribution for an independent student if the administrator decides that such a contribution is warranted. Again, any such **individual** determination must be documented in the student's files.

COST OF ATTENDANCE

The cost of attendance is an estimate of the student's educational expenses for the year. Traditionally, the cost of attendance includes such categories as tuition and fees, room and board and other expenses such as transportation, books, and supplies. In addition, some students may have additional expenses that may be a part of their cost of attendance: the cost of a "junior-year abroad" program, for instance, or the cost of special equipment or services for a handicapped student. The following discussion gives a general overview of the cost of attendance for the SFA programs. More detailed information is given in each of the program chapters.

Cost provisions

There are two different costs of attendance for the SFA programs: the Pell Grant cost of attendance, and the cost of attendance used for the campus-based and guaranteed loan programs. The costs of attendance have similar categories of student costs, as shown in the following chart:

COST OF ATTENDANCE

PELL GRANT PROGRAM	**CAMPUS-BASED STAFFORD/SLS/PLUS PROGRAMS**
Tuition and fees	Tuition and fees
Living expenses *(limited standard allowance for room, board, books, supplies, transportation and miscellaneous expenses)*	Room and Board *(minimum standard allowance)* Books, supplies, transportation and miscellaneous personal expenses
Child care (limited allowance)	Dependent care
Handicap-related expenses	Handicap-related expenses

Tuition and fees

If tuition and fees are charged to the student at the beginning of a program that is longer than an academic year, only the prorated amount of the tuition and fees applicable to that academic year is included in the Pell Grant cost of attendance. Note that the campus-based and GSL cost of attendance would include the full amount of the tuition and fees charged on *the period of enrollment* for which the loan is made. Consider the example of a 1350-hour program that defines its academic year as 900 hours and charges its students the full $3,000 in tuition and fees at the beginning of the program. In this case, an enrolling student would usually be eligible for two Pell Grant awards and two Stafford Loans, because the program is longer than one academic year. The tuition and fee component for the Pell Grant cost of attendance would be the same for both years—$2,000 (see Chapter Four, Section Two for a discussion of prorating charges). The tuition and fee charge for the first GSL would be $3,000, while there would be no tuition and fee component in the cost of attendance for the second GSL.

Living expenses

The Pell Grant cost of attendance has a combined standard allowance for all of the student's living expenses, while the cost of attendance for the other programs has two separate categories (the room/board allowance and another allowance for books/supplies/transportation/miscellaneous). The school sets the standard allowance for these categories, based on the typical costs for its students.

Note that the Pell Grant standard allowance has a *maximum* limit, while the standard allowance for room and board in the other programs is a *minimum* amount. For instance, the standard allowance for living expenses in the Pell Grant Program may not exceed $1,700 for a student without dependents who lives at home with his or her parents. In contrast, the standard allowance for room and board for the other programs must be at least $1,500 for a student without dependents who lives at home with his or her parents. There are other variations in the two costs of attendance for students who have dependents, or who do not live with their parents.

Child and dependent care

Another difference between the two costs of attendance is that the Pell Grant cost includes a *child care* allowance, while the other programs have an allowance for *dependent care*. (Dependent care includes the cost of child care, as well as the costs for adult dependents of the student who require special attention or supervision.)* The child care allowance for the Pell Grant Program is limited to $1,000.

Handicap-related expenses

Both costs of attendance have an allowance for special expenses incurred by *disabled students*. The allowance is set by the school, based on additional expenses of the student related to his or her disability, such as the cost of special services, equipment, and supplies. (Transportation costs resulting from the student's handicap may also be included for the campus-based and guaranteed loan programs.) This allowance must not include any costs of any services provided or paid for by other assisting agencies, such as the State vocational rehabilitation agency. The school must be able to justify and document the costs.

The law includes special provisions concerning costs for the campus-based and guaranteed loan programs, for students enrolled less than half-time, and for students studying abroad or in correspondence programs or through telecommunications. The Pell Grant cost of attendance does not make any special distinctions for students in these programs.

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* The dependent care allowance may include living expenses for the dependent (beyond the costs of the care itself) if the family's available income is less than the standard maintenance allowance, using the CM formula.

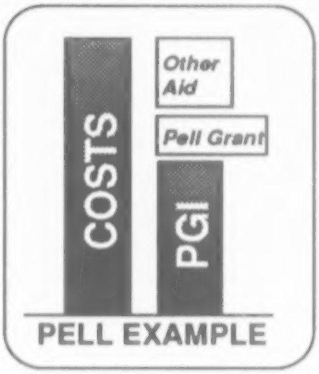
Adjusting costs

The financial aid administrator has the authority to use professional judgment to adjust the cost of attendance for the campus-based and guaranteed loan programs, on a case-by-case basis, to allow for special circumstances. Such adjustments must be documented in the student's file.

OVERAWARDS, RESOURCES, AND ESTIMATED FINANCIAL ASSISTANCE

We have seen how to find a student's financial need by comparing the cost of attendance to the expected family contribution. But the student may be receiving aid from other sources to help meet that financial need. A basic premise of need-based aid is that the total package of aid must not exceed the student's financial need. Aid in excess of need is referred to as an overaward. Because of differences in the way aid is handled in the SFA programs, the programs differ in the way that they take into account other sources of aid.

Pell Grants



PELL EXAMPLE

Pell Grants are considered to be one of the first sources of aid to the student. The Payment Schedule only takes into account the student's cost of attendance and expected family contribution (PGI) in setting the amount of the student's award. Other sources of need-based aid are expected to take the eligibility for Pell Grant into account when awarding funds. However, it is always possible that the student will receive a scholarship or other aid that, in combination with the Pell Grant, exceeds the student's need. Even if this happens, the student is still eligible for the Pell Grant as determined by the Payment Schedule. (Remember that the financial aid administrator's authority to adjust the Pell Grant Index has been removed for the 1992-93 award year.)

Campus-based resources

In contrast to the Pell Grant Program, the regulations for the campus-based programs specifically require the school to take into account any resources available to the student when awarding funds from those programs. *Resources* include the student's Pell Grant eligibility, Stafford Loans, veterans benefits, outside scholarships, and *need-based* student earnings during the award year. If the total of the student's expected family contribution for campus-based aid (the FC), resources, and campus-based aid exceeds the student's cost of attendance, the campus-based aid must be reduced to prevent an overaward.*

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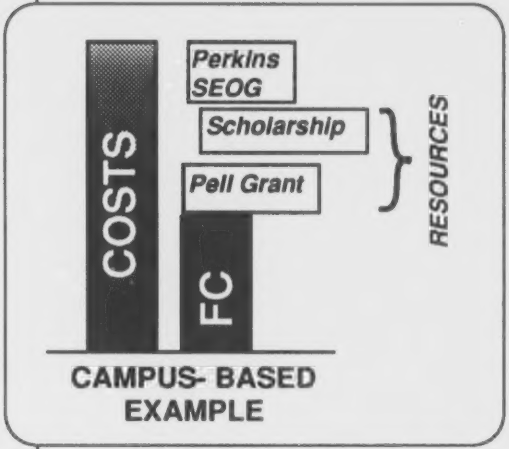
* The campus-based regulations give very detailed instructions on the steps to be taken by the school if it finds out *after it has awarded funds* that a student will receive additional resources. See Chapter Five, Section Three.



The student has costs of $6,000, with an FC of $1,500. The student's resources are a $2,000 Pell Grant, and a $1,000 outside scholarship. The school awards the student a $500 SEOG and a $1,000 Perkins Loan to fully meet the student's financial need.

Guaranteed loans: Estimated Financial Assistance

The statute governing the guaranteed loan programs (Stafford, SLS, PLUS) does not use the definition of "resources," but defines a similar term, "estimated financial assistance." (Below is a comparison of these two terms.) The school may only certify a Stafford Loan application for the difference between the student's cost of attendance on the one hand, and the FC plus estimated financial assistance on the other.

DIFFERENCES BETWEEN RESOURCES AND ESTIMATED FINANCIAL ASSISTANCE

The definitions of "resources" for campus-based aid and "estimated financial assistance" for the guaranteed loan programs are similar, but also have significant differences. (See comparison on the next page.) Some of these differences are based on the wording in the law, and some are the result of program differences, for instance, the concept that one must apply for other Federal aid first before incurring a loan obligation under Stafford or SLS. Still other differences arise where the law and regulations are more specific (such as the definition of ROTC scholarships and veterans benefits for estimated financial assistance).

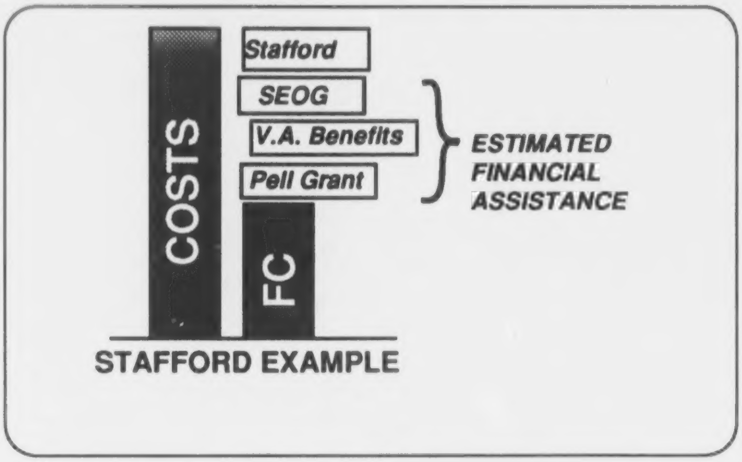
Note that for guaranteed loans, you must use the estimated amount that a student would receive from the Pell Grant, campus-based and other Federal and non-Federal scholarship, grant, loan, and need based work programs, *whether or not the student applies for aid from those programs.* In contrast, when figuring the student's resources, you would only use estimated eligibility for Pell Grants, but you would use actual aid awarded for the other types of aid.

As noted earlier, the law allows SLS, PLUS, ICL, unsubsidized Stafford,State, and private education loans to substitute for the FC for the campus-based and Stafford Loan programs. Thus, these loan funds would not be considered to be a resource or a part of estimated financial assistance, unless they exceed the FC. In addition, you should be careful not to "double-count" amounts that have already been used in the CM formula to calculate the FC. This problem is only likely to occur with veterans benefits, since the Federal and MDE applications exclude other forms of student financial assistance.

Finally, bear in mind that the definitions list *examples* of resources and estimated financial assistance. Forms of aid that are not specifically mentioned on these lists are not automatically excluded from consideration. Thus, even though definition of "estimated financial assistance" does not specifically mention need-based ICL funds, or insurance programs for the student's education, these forms of aid are included in the definition.

"RESOURCES" *includes (but is not limited to) —*	***"ESTIMATED FINANCIAL ASSISTANCE"*** *includes (but is not limited to) —*
FEDERAL AID	
Pell Grant eligibility,* Stafford Loan funds, any need-based ICL Campus-based aid (SEOG, Perkins/ Direct, CWS - except as in §675.25) Veterans benefits	Pell Grant and campus-based eligibility, and other Federal student aid,* including: • Social Security educational benefits • Selected Reserve Educational Assistance Program benefits (Chapters 106 and 107 of title 10) • Veterans educational benefits ** estimated amount the student would receive, whether or not the student applied for the aid*
SCHOOL & PRIVATE AID	
School and other scholarship and grant aid, including: • athletic and ROTC scholarships • ROTC subsistence allowance • fellowships and assistantships • waiver of tuition and fees	School or other scholarship, grant, loan, or need-based work programs (including ROTC scholarships and subsistence allowances under Chapter 2 of title 10 and Chapter 2 of title 37, U.S.C.)
Net earnings from need-based employment	Need-based earnings
School loans (long-term)	School loans and loans from State and other loan programs
OTHER	
Insurance programs for the student's education	Origination fee and insurance premium for Stafford, SLS, and PLUS (if included in the student's cost of attendance)
Based on *Sections 674.14, 675.14, 676.14* *December 28, 1988*	*Based on* *Section 682.200* *November 10, 1986*

For the campus-based and guaranteed loan programs, PLUS, SLS, ICL, unsubsidized Stafford Loans, and State and private education loans may replace part or all of the FC. If a student had been awarded the aid package shown in either the campus-based or Stafford examples (opposite page), but had an FC of $2,000, the student could still receive up to $2,000 from the SLS and PLUS programs without being overawarded. The SLS or PLUS, which are unsubsidized loans, would be considered a part of the family's contribution to educational costs.



Student must seek Pell before GSLs; Stafford before SLS

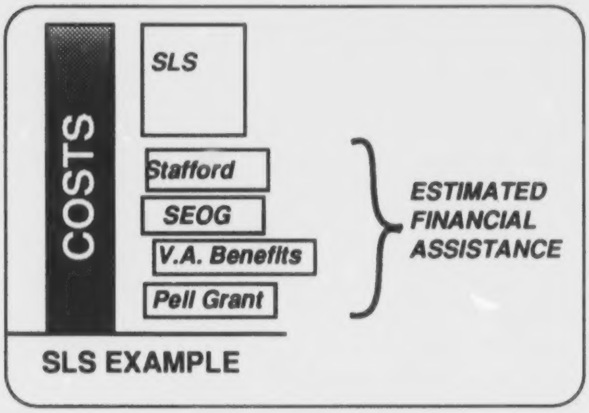
However, bear in mind that before the school may certify a Stafford or SLS loan application, it must have an indication of the student's eligibility or ineligibility for a Pell Grant. In addition, a student must apply for a Stafford Loan (if eligible) before the school may certify the SLS application (the Stafford Loan is more advantageous to the student because of its lower interest rate and other factors). See Chapter Ten for more detail on these requirements.

SLS/PLUS loans

Under the SLS and PLUS programs, the loan itself may replace the FC, so our example does not show the FC for the student. However, the school must still consider the student's cost of attendance and any estimated financial assistance when certifying the loan. Thus, the SLS or PLUS loan may not exceed the cost of attendance minus estimated financial assistance. As with Stafford Loans, State or private education loans (as well as SLS and PLUS loans) may be considered to replace the FC.

SLS/PLUS example

For instance, if a student has a cost of attendance of $8,000, an FC of 1,500, and a $2,000 Pell Grant, $2,000 veterans benefits, and a $1,000 SEOG, the student would be eligible for a maximum Stafford Loan of $1,500. However, because SLS and PLUS loans can replace the student's expected family contribution (FC), the student would also be eligible for an additional $1,500 from one of those programs.



Treatment of GSL for overawarrd

Until recently, there was no overaward concept for the guaranteed loan programs. No adjustment was made if the school discovered that the student had additional resources after the loan application was certified. The law now requires the financial aid administrator to withhold and promptly return to the lender any Stafford and SLS funds (in addition to campus-based funds) not delivered to the student that exceed the amount of aid for which the student is eligible, taking into account other aid obtained by the student. Instead of returning the entire undelivered aid, a financial aid administrator may choose to return only the amount of aid for which the student is ineligible. In either case, the financial aid administrator must provide the lender with a written statement describing why the funds were returned.

Returning overaward to lender

Funds returned to the lender must be applied to reduce the student's loan balance, and the lender must refund to the student's account the insurance premium and origination fees on the amount returned. However, if the student is eligible for part of a disbursement, the lender does not have to refund the insurance premium and origination fees. This applies to all Stafford and SLS loan overaward payments not delivered to students as of December 19, 1989, for loans made for periods of enrollment beginning on or after January 1, 1990.

NOTE: The requirement to refund the overaward to the lender does not apply to Stafford or SLS loans made to cover the cost of attendance at foreign schools or to PLUS loans.

PACKAGING AID

We would be remiss if we did not at least mention the concept of packaging, even though the Department does not regulate in this area. Packaging is the process of finding the best combination of aid that meets the student's financial need, given the constraints of available funds.

Packaging philosophies

If your school does not participate in the campus-based programs, and doesn't have its own sources of aid, packaging is not an issue. The student is eligible for a certain amount of Pell Grant aid, and any guaranteed loan is limited to the student's remaining financial need (although the SLS, PLUS state-sponsored and private education loans can replace the student's FC). See Chapter Ten for additional information.

On the other hand, if your school does have other sources of aid, you have to decide how to allocate scarce funds from different sources to meet each student's financial need. Should you give priority to students who apply for aid first, on a "first come, first served" basis? Do you offer grant assistance to beginning students, and loans and work-study to students who have had a chance to adapt to the academic program? If you do not have enough funds to meet every student's need, do you give more assistance to the neediest students, or give an equal proportion of aid across the board?

Vocational Rehabilitation

When packaging aid for students who qualify for both SFA funds and Vocational Rehabilitation assistance, the school must determine the student's budget exclusive of the costs for expenses related to the student's disability. The school must then coordinate funds available from the State Vocational Rehabilitation Agency and from institutional, State, and Federal student financial assistance programs to prevent an overaward. Assistance from the VR must be documented in the student's file.

Each State Association of Student Financial Aid Administrators has a voluntary agreement with its State Vocational Rehabilitation Agency specifying the procedures for coordinating vocational rehabilitation assistance in that State. For information about your State's agreement, contact the State Association or a regional office of the Department of Education.

Further information

Schools have different philosophies of packaging, depending on the characteristics of its academic programs, and the make up of its student body. Section Nine of the *Self-Instructional Modules* (prepared through contract by the Office of Student Financial Assistance) discusses some of the basic types of packaging. To get ideas about different approaches to packaging, you may also want to refer to materials prepared by the professional associations representing schools and financial aid administrators, or consult with other aid administrators at schools that have similar characteristics.

APPENDIX : DOCUMENTING CITIZENSHIP STATUS

As authorized by Congress, the SFA programs are intended to provide student financial aid to needy students who are either U.S. citizens, U.S. nationals, or permanent residents, or certain Pacific islanders, or who intend to become citizen sor permanent residents of the U.S. This appendix will discuss ***a)*** when a school is required to document a student's citizenship status, and ***b)*** what documents are acceptable as proof of the student's status. Required documentation of a student's citizenship status must be kept in the school files until the record retention period expires.

With one exception, the eligibility criteria and documentation requirements for U.S. citizens and eligible noncitizens are the same for all SFA programs. To be eligible for aid, a student* must be in one of the following categories relating to citizenship:

Categories of citizens and eligible non-citizens

1. ***A U.S. citizen or national.*** The term "national" includes not only all U.S. citizens, but also natives of American Samoa or Swain's Island.
2. ***Citizens and residents of the Pacific Islands.*** In some cases, citizens of the Marshall Islands and the Federated States of Micronesia (former Trust Territories) will continue to be eligible for aid from three SFA programs (Pell Grants, SEOG, CWS). Permanent residents of Palau (the only remaining Trust Territory) are eligible for aid from all SFA programs. We will discuss the changes in the status of these Pacific Islands later in this appendix.
3. ***A permanent resident of the U.S.*** A permanent resident of the U.S. must provide documentation from the Immigration and Naturalization Service (INS).
4. ***Other eligible noncitizens.*** An individual who can provide documentation from the INS that he or she is in the U.S. for other than a temporary purpose with the intention of becoming a citizen or permanent resident. Includes refugees, persons granted asylum, Cuban-Haitian Entrants, temporary residents under the recent Immigration Reform and Control Act of 1986, and others.

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* A parent borrower under the PLUS loan program must also be a citizen or eligible noncitizen, as discussed in this Appendix.

Students at foreign schools

The only exception to these general citizenship requirements concerns students attending foreign schools that participate in the guaranteed loan programs. To receive a Stafford, SLS, or PLUS loan at a foreign school, a student must be a U.S. citizen or national. Permanent residents of the United States or other eligible noncitizens are not eligible for loans to attend foreign schools.

U.S. CITIZEN OR NATIONAL

The term "U.S. citizen" includes citizens of the 50 States, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, and now the Northern Mariana Islands. (The Northern Marianas became a Commonwealth of the United States on November 3, 1986.)

Generally, students in the U.S. citizen or national category are not required to provide documentation of that status to receive SFA funds. However, a student who does not check a box for citizenship status when first applying for aid will be required to provide documentation of citizenship. This requirement also applies to a student who checks the box for "ineligible" or "eligible noncitizen," but later corrects the item to "citizen."

If citizenship status and alien registration status are both blank the applicant is rejected by the Central Processing System. If citizenship status is blank, but the alien registration number is filled in, the central processor will assume the applicant is an eligible noncitizen and forward the alien registration number to INS for confirmation of eligibility.

Documentation for citizens not born in the U.S.

If the student in question is a U.S. citizen who was not born in the United States, you should ask for one of the following documents: a valid passport , a Certificate of Citizenship, a Certificate of Naturalization, a Form FS-240, or a completed Form G-641.

Certificate of Citizenship

If the student presents a Certificate of Citizenship, the statement must include at least the following information:

1. The student's name and the application number
2. The certificate number (in the upper right hand corner)
3. The date of issuance of the certificate

Certificate of Naturalization

If the student presents a Certificate of Naturalization, the statement must include at least the following information:

1. The student's name and the petition number
2. The certificate number (in the upper right hand corner)
3. The INS Alien Registration Number (A-number)
4. The name of the court where the naturalization occurred
5. The date of naturalization

Photocopying permitted

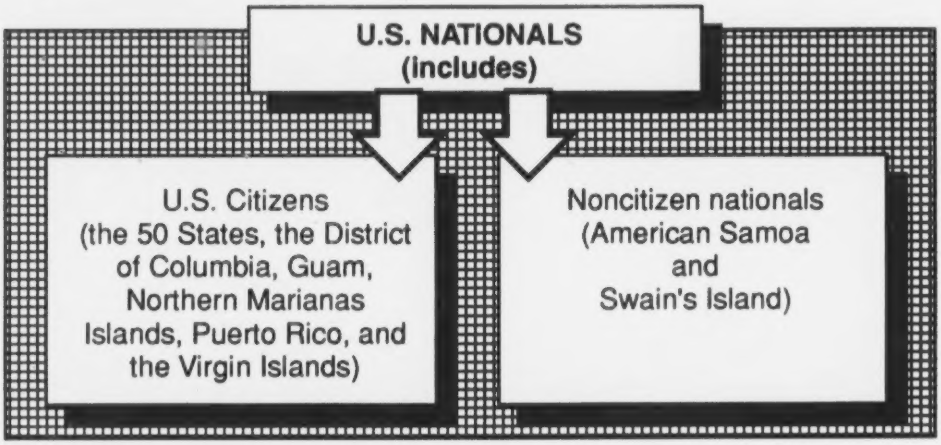
While older versions of these two certificates advise the holder not to photocopy them, INS has informed us that these certificates may be photocopied for lawful purposes (newer versions of the form will include this information). INS has confirmed that it is permissible for a school to photocopy these certificates for its records.

Form FS-240 or G-641

If the student presents a Form FS-240, "Report of Birth Abroad of a Citizen of the United States," the form must bear an embossed seal including the words "United States of America" and "State Department." The Form G-641 can also be used to confirm the student's status either as a citizen or as an eligible noncitizen.

U.S. Nationals

Actually, all U.S. citizens are also considered to be U.S. nationals. However, there are some U.S. nationals (natives of American Samoa or Swain's Island) who are not U.S. citizens. The diagram below will help explain the term:


U.S. NATIONALS (includes)
U.S. Citizens (the 50 States, the District of Columbia, Guam, Northern Marianas Islands, Puerto Rico, and the Virgin Islands)
Noncitizen nationals (American Samoa and Swain's Island)

Acceptable documentation for a noncitizen national is simply a U.S. passport stamped "Noncitizen National."

CITIZENS AND RESIDENTS OF THE PACIFIC ISLANDS

Northern Marianas Islands

There have been several changes to the political status of the Pacific Islands in recent years. As noted earlier, the Northern Marianas has become a Commonwealth of the United States (as of November 3, 1986). As a result, most residents of those islands are now citizens of the United States and are eligible for SFA funds on that basis (see previous section on documentation for citizens).

Palau

The Compact of Free Association (P.L. 99-239) is intended to create three new political entities from the former Trust Territory of the Pacific Islands. At the time this Appendix was prepared, the Compact had recently been signed by Palau, but had not been ratified by Congress or the people of Palau. Residents of Palau will continue to be eligible for funds from all the SFA programs as "permanent residents of the Trust Territory of the Pacific Islands" until the Compact with Palau has been ratified.

Marshall Islands and the Federated States of Micronesia

The Compact has been signed and is now effective for the Marshall Islands and the Federated States of Micronesia. Citizens of these islands are eligible for Pell Grant, CWS, and SEOG program funds. (The original statutory provision limited this eligibility to four years for citizens of the islands who were postsecondary students in eligible schools on the day before the Compact was ratified. Public Law 100-369 extended eligibility (without any four-year limit) to citizens of the Marshall Islands and the Federated States of Micronesia who were not postsecondary students on the day before ratification.

Students from these islands who are not eligible for SFA funds should be advised to contact their appropriate government office. Funds have been provided to the governments of the Federated States of Micronesia and the Marshall Islands to establish their own assistance programs. In addition, some students who are ineligible for SFA funds may choose to apply for permanent resident status, in which case you should document that status as described for permanent residents.

ELECTRONIC MATCH WITH INS: PRIMARY CONFIRMATION OF ELIGIBLE NONCITIZEN STATUS

Match with INS Records

As noted before, an applicant who is a permanent resident or other eligible noncitizen must provide documentation of that status to receive SFA funds.* For the 1992-93 award year, such documentation may be provided automatically through the results of a computer match of information from the financial aid application with INS records. This computer match, known as "primary confirmation," will result in a SAR comment indicating either that the student's status has been confirmed or that it was not confirmed. If the SAR comment states that the student's status as an eligible noncitizen has been confirmed, that comment serves as the documentation that a school must retain in the student's files.

Through the Primary Confirmation process, an applicant's noncitizen information is electronically matched with the Alien Status Verification Index (ASVI) data base kept by INS. When application data are received by the CPS, identifying information from all noncitizen applications will be transferred electronically to the INS computer facility. INS is responsible for matching this information and electronically transmitting the INS response back to the CPS within 24 hours. The MDE that processed the applicant's information will be given the results of the INS match, and will then print the appropriate comment on the applicant's SAR.

A-number used to match INS information

The Federal and MDE financial aid applications now collect the "A-number" for all students who indicate that they are eligible noncitizens. The A-number is a unique number assigned to each legal alien by INS. The CPS will attempt to match the A-number that the student reported with the INS data base. If the student's information from the financial aid application matches with INS records, the following comment will be printed on the SAR: **"Your citizenship status has been confirmed by the Immigration and Naturalization Service and you meet the citizenship requirements for Federal student financial aid."**

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* The process of documenting citizenship status should not be confused with the process of verifying information on the financial aid application. All permanent residents and eligible noncitizens, except residents of the Trust Territory, citizens of the Federated States of Micronesia, and citizens of the Marshall Islands, must have documentation (either on the SAR or an INS document) showing that they are eligible for SFA funds. Documenting a student's citizenship status has no effect on the 30% verification limit.

When students must provide documentation

A school does not need to collect any additional INS documentation for a student who has the SAR comment confirming eligible noncitizen status, since the comment acts as the student's eligibility documentation. (Part 1 of the SAR should be kept in the student's file). However, you must collect additional documentation if you do not have a SAR confirming the student's status, or if you have conflicting information that indicates that the student is not an eligible noncitizen. (The General Provisions require the school to resolve any conflicting information before paying the student or certifying a loan application). The best way to resolve the student's citizenship status is to request that the student provide documentation of his or her status, and to request that INS verify the documentation that the student provides. Sending the student's documentation to INS for verification is an optional procedure known as "Secondary Confirmation."

Secondary Confirmation

Secondary Confirmation is not presently required by regulation, but is recommended to ensure that the student is eligible for SFA funds. Because Secondary Confirmation is voluntary, a financial aid administrator may decide whether to wait for the INS response before awarding or disbursing SFA funds. *If you do not choose to conduct a Secondary Confirmation, you must ensure that the student holds an eligible status by reviewing the INS document as is currently required.*

SAR comments

When a noncitizen's data does not match the INS data base, one of the following three comments will appear under the heading of "Documentation Requirements" on Part I of the SAR:

- **The Immigration and Naturalization Service did not confirm your statement that you are an eligible noncitizen. You must submit proof of your noncitizen eligibility to your school within 30 days after you give this SAR to the school. If you fail to submit documents within 30 days, you may be found ineligible for Federal student financial assistance.**

  This means that the information necessary to perform Primary Confirmation is available, but the information does not match with that in the INS' ASVI data base.

- **The Immigration and Naturalization Service could not confirm your statement that you are an eligible noncitizen. You must submit proof of eligibility to your school within 30 days after you give this SAR to your school. If you fail to submit documents within 30 days, you may be found ineligible for Federal student financial assistance.**

This means that the information necessary to perform Primary Confirmation was either illegible or blank; therefore, Primary Confirmation could not occur. This comment, however, also includes those citizens of the Marshall Islands, Federated States of Micronesia, and Palau who do not have an A-number (thus, leaving the A-number blank). In this case, due to the status of these islands, proof of citizenship is not required in determining eligibility for SFA funds.

- **The Immigration and Naturalization Service was not able to process our request to confirm your statement that you are an eligible noncitizen. You must submit proof of your eligible noncitizen status to your school before you can receive Federal student financial aid.**

This means that INS was not able to match the student's record within 24 hours, or that the computer matching program was not in service.

Limitation on using results of the match to deny aid

The Computer Matching and Privacy Protection Act of 1988 prohibits a school from suspending, terminating, reducing or making a final denial of SFA funds, or taking other adverse action against a student based on the results of the INS match, unless the student has been notified and has had time to respond to the notification. No action may be taken until 1) the student has received a SAR stating the results of the match and stating that he or she has 30 days to provide documentation to the school to contest the results of the match, and 2) 30 days after the student has submitted the SAR to the school. (See Dear Colleague Letter GEN 90-19 for further information.)

If the student has filed a financial aid application with a need analysis servicer that is not an MDE processor, the student's information will not be matched with the INS data base, and Primary Confirmation will not be available. When Primary Confirmation is not available, the 30-day notice period does not apply and the student must provide the school with acceptable documentation of his or her status, as described in this Appendix.

USING THE G-845 FOR SECONDARY CONFIRMATION

If a student is unable to provide you with a SAR that confirms his or her status as an eligible noncitizen, the student must provide you with appropriate documentation (as described in this Appendix) showing that he or she is a permanent resident or other eligible noncitizen. The school may initiate a "Secondary Confirmation" of this documentation, to ensure that it is valid. Schools are not required to conduct Secondary Confirmation, but this confirmation is advisable in cases where the computer match is unable to confirm the student's status.

Document Verification Request

To initiate Secondary Confirmation you must complete a Form G-845. The G-845 ("Document Verification Request") is a standard INS form that is used to ask the INS File Control Office to confirm that an alien noncitizen's documentation is valid. To use the G-845, fill out the top half of the form in its entirety, providing the student's A-number (Line 1) and other information (Lines 2-5), your name as the "submitting official," and the school as the "submitting agency." (Leave Line 6 blank — it is not applicable in this case.) Mark the box for "Education Grant/Loans/Work-study," attach a photocopy of the student's citizenship document (such as an I-94 or I-551), and send this information to the File Control Office for your State or area (we have provided INS addresses at the back of the Appendix).

Status verifier

A status verifier at the District INS Office will search the applicant's record to confirm the applicant's immigration status. The status verifier at the INS office completes the appropriate section of the G-845, and sends it back to the financial aid administrator, generally within 10 days of receipt at the District INS Office. If you don't receive a response from INS within 15 working days (10 working days plus 5 days mail time) from the time you mailed your request, you should review the copy of the document that was made for the file to determine if the document meets the citizenship eligibility requirements for SFA purposes, if you have not done so already. You may wish to document in the file that INS exceeded the time allotted and that you had to review the documents.

It is recommended that you develop a tracking system so that the date of mailing to INS can be documented. If you haven't heard from INS, you may wish to make a phone call to your INS contact person to make sure the G-845 and documentation were received.

The G-845 is used only to certify the authenticity and identity of immigration documents attached to it; therefore, it cannot be used by itself to determine an applicant's eligibility for SFA funds. An applicant who is undergoing Secondary Confirmation must provide appropriate documentation of eligible noncitizen status, as described in this Appendix. An applicant who has lost documents or surrendered these documents when entering prison is responsible for obtaining copies of these documents. (See "Replacing Lost INS Documents" in this Appendix.) Schools may request copies of immigration documents directly from penal institutions at the request of an applicant.

INTERPRETING THE G-845

The INS Form G-845 serves two functions. First, it is used by a financial aid administrator to request a Secondary Confirmation, and secondly, it is used by the INS to respond to the Secondary Confirmation request. The INS File Control Office (FCO) will check all appropriate statements on the lower half and the back of the form to indicate the applicant's alien status. The following statements indicate that the student is eligible for SFA funds:

Permanent Resident (eligible)

This document appears valid and relates to a Lawful Permanent Resident alien of the United States: This is checked when the documentation submitted is determined to be a valid I-551, I-151, I-181, I-94, or passport stamped with the notation "Processed for I-551, Temporary Evidence of Lawful Admission for Permanent Residence."* Immigration law allows this person to live and work in the U.S. on a permanent basis. ***(Eligible)***

Conditional Resident (eligible)

This document appears valid and relates to a Conditional Resident alien of the United States: This is checked when the documentation submitted is determined to be a valid I-551, I-181, I-94, or passport stamped with the notation "Processed for I-551, Temporary Evidence of Lawful Admission for Permanent Residence."* Under the law, this person is allowed to live and work in the U.S.; however, INS will reevaluate his status within two years. Conditional resident alien status normally is granted to aliens who marry U.S. citizens or nationals, or permanent resident aliens. ***(Eligible)***

Asylum/ refugee status (eligible)

This document appears valid and relates to an alien having been granted asylum/refugee status in the United States: This is checked when an alien has been granted asylum or refugee status in the U.S. because of persecution or a well-founded fear of persecution in his or her country of nationality. These statuses are considered temporary. Documentation presented may include Form I-94, stamped with "Section 207 - Refugee" or "Section 208 - Asylee," or a Refugee Travel Document (Form I-571). ***(Eligible)***

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*The term "temporary"used here refers to documentary evidence. It is not intended to imply that the immigration status itself is temporary.

Parolee (eligible)

This document appears valid and relates to an alien paroled into the United States pursuant to Section 212 of the Immigration and Naturalization Act: This is checked for an alien who has been allowed to enter the United States under emergency conditions or when his or her entry has been determined to be in the public interest. This status is temporary. Documentation presented may include Form I-94, stamped with "Section 212(d)(5) - Parolee." ***(Eligible)***

Cuban-Haitian entrant (eligible)

This document appears valid and relates to an alien who is a Cuban-Haitian entrant: This is checked for Cubans who entered the United States illegally between April 15, 1980 and October 10, 1980, and Haitians who entered the country illegally before January 1, 1981. This is a temporary status. Documentation presented may include Form I-94, stamped "Cuban/Haitian Entrant." ***(Eligible)***

Conditional entrant (eligible)

This document appears valid and relates to an alien who is a conditional entrant: This is checked to indicate a refugee who entered the United States or adjusted his or her status to lawful permanent resident alien under the seventh preference category of Public Law 89-236. Documentation presented may include Form I-94, stamped with "Section 203(a)(7)." This status was defined by Section 203(a)(7) of the Immigration and Nationality Act, but was later abolished by the Refugee Act of 1980. Those noncitizens who fall into this category would have entered the U.S. prior to the enactment of the Refugee Act of 1980. ***(Eligible)***

Not eligible for SFA funds:

The following comments indicate that the student is ineligible for SFA funds. Unless the student provides other valid documentation from INS establishing that he or she holds an eligible noncitizen status, you may not pay the student.

This document appears valid and relates to an alien who is a nonimmigrant: This is checked to indicate an alien who is temporarily in the U.S. for a specific purpose. This category includes students, visitors, and foreign government officials. Documentation presented may include the Form I-94. ***(Not eligible)***

Unauthorized employment (not eligible)

This document appears valid and relates to an alien not authorized employment in the United States: This is checked when an alien's status prohibits employment in the United States. ***(Not eligible)***

No record (not eligible)

The Immigration and Naturalization Service has no record of this applicant: This is checked when a thorough examination of all pertinent INS files reveals no data on an alien. This status reflects a conflict of information. ***(Not eligible)***

Invalid document (not eligible)

This document is not valid because it appears to be altered or counterfeit: This is checked for expired documentation or when an item appears to be counterfeit or altered. Notify the student to take corrective action with the INS prior to submitting the student's file for investigation to the Office of the Inspector General (OIG). This will allow any unfortunate mistakes in the status verifier's review to be corrected. Until this discrepancy is resolved, no further disbursement or awarding or certification of aid may take place. However, if the student does not take corrective action in a timely manner or chooses to ignore the situation, this case must be reported to the OIG without additional delay. ***(Not eligible)***

The following comments do not establish whether the student is eligible or ineligible for SFA funds. Unless INS has checked another response box that indicates the student is eligible, the school must review the applicant's INS documents to ensure that the student meets one of the eligible categories described in this Appendix.

Authorized employment (inconclusive)

This document appears valid and relates to an alien authorized employment as indicated below: This is checked to indicate whether the authorization covers full-time or part- time employment, and when, if applicable, the period of employment will expire. "Indefinite" will be indicated if there is no specific expiration date for employment eligibility. Employment authorization by itself does not indicate that the student is eligible for SFA funds.***(Eligibility inconclusive)***

Application pending (inconclusive)

This document appears valid and relates to an alien who has an application pending for: This is checked when an alien is waiting for a new immigration status or change of immigration status. If a change of status is pending, the appropriate block indicating the current status also will be checked. A pending application for an immigration status does not (by itself) indicate that the student is eligible for SFA funds. ***(Eligibility inconclusive)***

Searching indices (inconclusive)

Continue to process as legal alien. INS is searching indices for further information: Checked if INS will withhold judgment regarding the status or validity of documentation pending further investigation. This statement does not imply that the applicant is an illegal alien or the holder of fraudulent documentation. Benefits should not be denied on the basis of this statement. The document should be accepted at face value until INS sends a final notification regarding immigration status. If the student's INS documents show that the student is an eligible noncitizen, the school may pay the student any SFA funds for which the student is eligible. If INS later notifies the school that the student's documentation is not valid, the school may no longer pay the student, but the school will not be liable for the payments that it has already made. ***(Eligibility inconclusive)***

Comments on back of G-845

The Comments block on the back of the G-845 is used for further instructions. The G-845 includes the following statements:

No determination can be made from the information submitted. Please obtain a copy of the original alien registration documentation and resubmit: Resubmit the G-845 with copies of the original alien documentation.

No determination can be made without seeing both sides of the document submitted: Resubmit the G-845 with copies of both sides of each document.

Copy of document is not readable: Resubmit the G-845 with higher quality copies of the original alien documentation.

The comments listed under PRUCOL: "Permanently Residing Under Color of Law" reflect an alien's situation, not an alien's immigration status. Therefore, any INS response to items 16 and 17 will not affect the student's eligibility for SFA funds.

The INS will initial and stamp the front of the G-845 in the signature block.

Reconciling discrepancies

When Secondary Confirmation results in an eligible status, the G-845 must be maintained in the student's file. However, if there is a discrepancy when the response is received, the school must notify the student and he or she must correct the discrepancy with the INS. No certification of a Stafford Loan or further disbursement of SFA funds may be made until an INS discrepancy is corrected. If the discrepancy is not reconciled with INS, the student must repay all aid except wages earned under College Work-Study. When the discrepancy is reconciled, the financial aid administrator should resubmit the copy of the student's document with a new G-845 to the File Control Office.

Corrective action

If a school takes corrective action, it is not liable for aid disbursed prior to Secondary Confirmation unless the school had conflicting information or believed the information to be incorrect. Prompt corrective action includes: 1) notifying the student of the discrepancy, and 2) withholding further payment or loan certifications.

Because the G-845 reflects the student's most recent status with the INS, it may show a different status than other documentation presented by a student. In this case you should check to see if both documents identify the same student. If so, the status on the G-845 should be used.

DOCUMENTATION FOR PERMANENT RESIDENT STATUS

If you do not have Primary Confirmation for an applicant who claims to be a permanent resident, the applicant must provide appropriate documentation from INS (as described below). A school may choose to initiate a Secondary Confirmation of these documents, using the G-845.

I-151 and I-551

The standard documentation for a permanent resident of the U.S. is the Alien Registration Receipt Card (Form I-151 or Form I-551). Both forms are usually referred to as "green cards" although they may or may not be green. A completed Form G-641 can also be used to document permanent resident status. A passport or an I-94 is also acceptable if it has one of the following stamps:

Passport

➠ A passport stamped "Processed for I-551. Temporary Evidence of Lawful Admission for Permanent Residence. Valid Until_______. Employment Authorized."

I-94

➠ A Departure Record (Form I-94) stamped as above or stamped "Temporary Form I-551. Admission for permanent residence at __________________(port) on _________(date) verified. _________(office of issuance)________(date)________(signature of issuing officer)__________(title)." This Form I-94 will also contain the individual's photo and an INS seal over the photo and the stamp.

A student who has an approved application for permanent residence on file with INS and who is waiting for an Alien Registration Receipt Card may not have proof of his or her citizenship status. You should advise such a student to contact his or her local INS office for the passport stamp or I-94 described above.

In past award years (prior to 1984-85), a student who had an INS Form I-181, I–181a, or I-181b with specific INS stamps was eligible for SFA funds. However, these forms are only used in connection with an *application* for permanent residence status. None of these three forms is proof of permanent residence. Therefore, these three INS forms are no longer accepted as proof by themselves that a student is an eligible non-citizen. (Note that they may be submitted to INS for secondary confirmation of the student's eligibility.)

Conditional status

The Marriage Fraud Amendments established a two-year conditional permanent resident status for certain alien spouses and their children. The alien spouse of a U.S. citizen or legal immigrant is given conditional permanent resident status if the marriage took place less than two years before the spouse applied for permanent resident status or citizenship. This status may also apply to children of that spouse who are aliens.

An alien who is granted conditional permanent resident status will be given a Form I-551. This form is the same I-551 that is issued to regular permanent residents, except that the card will have a “C” (for “conditional”) on the front, and an expiration date on the back. A conditional permanent resident must file a petition for removal of this restriction during the 90 days at the end of the two-year period. After satisfactory review of the alien's petition, the restriction will be dropped and new documents issued. Conditional permanent residents holding an I-551 with a valid expiration date are eligible to receive aid under the SFA programs.

DOCUMENTATION FOR OTHER ELIGIBLE NONCITIZENS

If you do not have Primary Confirmation for an applicant who claims to meet an eligible noncitizen status, such as a refugee, asylee, parollee, the applicant must provide appropriate documentation from INS (as described below). As with a permanent resident, a school may choose to initiate a Secondary Confirmation of these documents, using the G-845.

Documentation of lawful presence on I-94, for —

For humanitarian reasons, a student who has been designated by the INS as lawfully present in the U.S. for a purpose other than temporary will still be considered eligible for aid from the SFA programs. Evidence of this lawful presence will be given on the departure record (Form I-94). The I-94 departure record will contain one of the following:

Refugee

➡ A stamp indicating that the student has been admitted to the United States as a refugee. This stamp will read either "Admitted as a Refugee Pursuant to Section 207 of the Act. If you depart the United States you will need prior permission to return. Employment Authorized," or "Status changed to refugee pursuant to Section 207 (c)(2) of the Immigration Nationality Act, on ___________. Employment Authorized."

Person granted asylum

➡ A stamp indicating that the student has been granted asylum in the United States. This stamp will read "Asylum status granted pursuant to section 208, INS. Valid to ________. Employment Authorized." Persons who have been granted asylum in the United States are given employment authorization for one year. At the end of that year, they are eligible to apply for permanent residence. Asylum status continues unless revoked by INS or until permanent residence status is granted.

> *A refugee or a person who has been granted asylum may also apply for permanent resident status and may be required to return his or her original I-94 to INS. While the application is being processed, INS will give the student a copy of the original I-94 which will include the endorsement "209a (or 209b) pending. Employment Authorized." Such a student is still eligible for aid through the SFA programs.*

Conditional entrant

➡ A stamp indicating that the student or parent borrower has been admitted to the United States as a conditional entrant. Although this status remains valid, the INS stopped using this category on March 31, 1980. Therefore, no I-94 showing admission in this status after March 31, 1980, should be accepted without first having the student or parent borrower contact INS.

Parollee

➡ A stamp indicating that the student or parent borrower has been paroled into the United States for an indefinite period for humanitarian reasons. The words "indefinite" and/or "humanitarian" will be hand-written into the stamp.

Cuban-Haitian entrant

➡ A stamp across the face of the I-94 indicating that the student or parent borrower has been classified as a "Cuban-Haitian Entrant, Status Pending." (The stamp may also read "Cuban-Haitian Entrant (Status Pending). Reviewable January 15, 1981. Employment authorized until January 15, 1981.") A document showing the holder to be a Cuban-Haitian entrant is valid no matter what expiration date appears on it.

The I-94 for some Cuban-Haitian Entrants who are applying for permanent residence may be stamped "applicant for permanent residence." (Or the student may be given a separate document acknowledging the receipt of his or her application for permanent residence.) Because an applicant for Permanent Residence is not eligible for SFA aid, you must tell the student to request documentation from INS that would confirm that the student is a Cuban-Haitian entrant, or other eligible noncitizen.

Suspension of deportation

The INS has implemented new procedures for applying for a suspension of deportation. A student must now apply for a hearing before an Immigration Law Judge who will render an oral or written decision. If the decision is favorable, INS will give the applicant a Form I-551 which will certify his or her lawful permanent registration status. To establish eligibility for SFA funds, the student must provide a copy of the I-551 to the financial aid administrator.

Immigration Reform and Control Act

The Immigration Reform and Control Act of 1986 (IRCA) made it possible for certain categories of aliens to receive temporary resident status and eventually permanent resident status. These categories include aliens who 1) entered the United States illegally before January 1, 1982, have resided continuously in the United States since that date, and meet certain other eligibility requirements, or 2) performed qualifying agricultural employment in the United States during defined periods of time and meet certain other eligibility requirements.

An alien who was eligible for temporary resident status under IRCA and applied to an INS office would have been issued an Employment Authorization Card (Form I-688A) which permits an eligible alien to work legally in the United States while his or her application is being processed. A student who has a Form I-688A is not eligible for SFA funds. The Form I-688A expires 6 months from the date of issue, during which time the holder will be notified if the application for temporary resident status has been accepted.*

In 1989-90, INS issued the interim Form I-688B, and earlier this year it issued the permanent I-766. These Employment Authorization Documents (EAD) are used for employment authorization purposes only. If either of these documents is submitted to you, please return it and ask for other documentation.

Temporary Resident Card (I-688)*

If the application for temporary resident status was approved, and the applicant turned in the I-688A at the local INS Legalization Office, he or she would have received the Temporary Resident Card (Form I-688). This card has an expiration date. Students who have a valid Form I-688 are eligible for SFA funds. A student who has a Form I-688 must show the card to the school he or she is attending, and provide a photocopy to the school for its records.

Student visas etc., not acceptable

Persons with F-1 or F-2 Student Visas, or J-1 or J-2 Exchange Visitors Visas, L-1, or G series Visas (pertaining to international organizations) are *not eligible* to apply for SFA aid, unless they have an I-94 with one of the endorsements listed above. Also, someone who has only a "Notice of Approval to Apply for Permanent Residence (I-171 or I-464)" cannot receive SFA aid.

INS stamp and validation

The INS documents described above will be stamped in a rust colored ink. They will normally contain a validation indicating office of issuance and a code to indicate the officer who prepared the document. Examples of codes are "WAS-82" (Washington District Office, Officer Number 82) and "1/13/84 SPO.KD" (Spokane Office, officer's initials KD).

Collecting documentation and photocopies

You must keep a copy of the citizenship documentation submitted by the student in the student's file. Documentation provided as proof of the student's citizenship status (such as the Alien Registration Receipt Card and the Departure Record) can legally be photocopied by the student. It is important that the student or parent understand that he or she is permitted to photocopy a document only for purposes of applying for aid under the SFA programs. The student *must not* photocopy a document for any other reason.

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* Note that the deadline for applying for amnesty under Section 245 of IRCA has expired. However, some students may still be eligible to apply for amnesty under other INS provisions.

Although students may copy the I-94 and other documents and submit them to you, sometimes the endorsement (a stamp) does not show on the photocopy due to the ink color on the original document. If this occurs, you should ask the student or parent to provide the original I-94 (or other relevant document) so that you can copy the exact endorsement on the photocopy. Because the endorsement can be found anywhere on the I-94, it can be difficult to locate. You should note that although the endorsement may also be on the student's or parent's passport, it *must* be on the I-94.

INS offices do not have uniform procedures or stamps. You should contact your local INS office if you have questions regarding the acceptability of citizenship documentation.

UPDATING CITIZENSHIP STATUS IN LATER AWARD YEARS

There are several cases in which you must verify a student's citizenship status for each award year (if you have not received Primary Confirmation) to ensure that the student continues to be eligible for SFA funds.

Updating the Temporary Form I-551

A student who presented a Temporary Form I-551 in a prior award year should have received a permanent I-551 by the next year, and should not still be holding a temporary card. If a returning student presents a Temporary I-551 again a year later, you should refer the student to INS. When the student returns, he or she should have received a permanent I-551 or should have had his or her temporary card updated with a valid I-551 endorsement as described on page 83 for a passport or an I-94.

I-551 with baby picture

If the student has an I-551 with a baby picture, you should suggest that the student update the I-551 with INS. Permanent residents are expected to obtain a new picture and be fingerprinted at the age of 14. However, you may pay a student who has an I-551 with a baby picture, if you can confirm that the I-551 with the baby picture belongs to the student by comparing it to a current photo ID that has the student's name, date of birth, and signature. (The current photo ID must also be consistent with any identifying information in the student's file at the school.)

Refugees, asylees, Cuban-Haitian entrants

You must also document the citizenship status each award year for a refugee, a Cuban-Haitian Entrant, or a person granted asylum. In each of these categories, the student may have been adjusted to permanent resident status or may have had his or her status revoked.

You do not have to document a student's citizenship status in subsequent award years if you have previously documented that a student is a U.S. citizen or national, a permanent resident of the Trust Territory (Palau), a citizen of the Federated States of Micronesia or the Marshall Islands, or has a Form I-551 or I-151.

REPLACING LOST INS DOCUMENTS

If a student cannot locate his or her official INS documentation, the student must request that the documents be replaced, since immigrants are required to have documentation of their status. Requests for replacement documents should be made to the INS District Office that issued the original documents. (See addresses at end of this Appendix.)

Form G-641

In the past, we have suggested that the student use an INS Form G-641 (Application for Verification of Information from Immigration and Naturalization Service Records) as an alternative way to document his or her status as an eligible noncitizen. However, INS has informed us that it is discontinuing the use of this form. (Some students may still have copies of the G-641, which is acceptable documentation if filled out as shown on the next page.)

As an alternative to the G-641, you may suggest that the student obtain a completed G-845 from the INS District office. The student may submit the G-845 to the school as documentation of his or her status as an eligible noncitizen. However, the school should use the secondary confirmation procedure (by sending the student's G-845, attached to another G-845, to INS for confirmation) before paying the student SFA funds.

Documentation of status

In cases of undue hardship to the student, in which the student urgently needs documentation of their status, you may suggest that the student request a photocopy of the documents from the INS District Office that issued the original documents, under the Freedom of Information (FOI) Act. The student may submit an INS Form G-639 to make this request, or simply send a letter to the district office. If the student is not sure which district office issued the original documents, he or she may submit the request to the FOI office in Washington, DC (see addresses at the back of this Appendix).

While you may accept a photocopy of the documentation, or a G-845 to establish the student's eligibility for student financial assistance, the student is required by law to have the original documentation, and should be advised to request replacement documents for the lost originals.

FORM G-641

Some students may still have a copy of the Form G-641, and may submit it to the school to document their eligibility. To be acceptable documentation of a student's eligibility, both the student's section and the INS section of the form must be completed, and one of the following statements must be checked on the form (blanks must be filled in by INS).

" ☐ Lawful admission for permanent residence on __________
at ____________ class ____________."

" ☐ Naturalization information as shown above is correct."

The G-641 would also be acceptable if the following three lines are completed (as a group):

" ☐ Naturalization in (court) _________ on (date) __________
☐ At (location) __________
☐ Date of birth __________"

If the line

" ☐ Arrival record dated _____________ showed
subject's age at time to be ______________"

is completed, the G-641 is *not* acceptable unless one of the appropriate endorsements listed in this Appendix is also on the G-641. These endorsements are not automatically placed on the G-641. The student must request in writing that INS include on the G-641 the appropriate endorsement as it appeared on his or her original INS document. In the case of Cuban-Haitian students, INS generally is issuing only the endorsement "Cuban-Haitian entrant," which is acceptable on the G-641.

ADDITIONAL INFORMATION

In the following pages we have included several reference materials that you may find helpful:

1. A summary chart of the documentation requirements discussed in this Appendix.
2. Examples of the principal types of documentation discussed in this chapter.
3. A copy of the G-845.
4. A glossary of terms used in processing applications for noncitizens.
5. A list of INS offices and addresses.

SUMMARY CHART OF ACCEPTABLE DOCUMENTATION

As an alternative for a student who is having trouble obtaining replacement INS documents, the student may use a G-639 to request photocopies of the original documentation.

CITIZEN NOT BORN IN U.S.	
Certificate of Citizenship	Must have student's name and application number, certificate number, and the date the certificate was issued.
Certificate of Naturalization	Must have student's name and petition number, certificate number, INS Alien Registration Number, name of the court (and date) where naturalization occurred.
"Certification of Birth Abroad" Form FS-545, DS-1350, or 240	Must have embossed seal reading "United States of America and "State Department." The FS-240 is titled "Report of FS-Birth Abroad."
U.S. Passport	
NONCITIZEN NATIONAL	
U.S. Passport	Must be stamped "Noncitizen National."
PERMANENT RESIDENT	
"Alien Registration Receipt Card" Form I-151, I-551, or I-551C	The I-551 and the I-551C must have currently valid expiration dates.
Passport	Must be stamped "Processed for I-551" with expiration date.
I-94	Must be stamped "Processed for I-551" with expiration date, or "Temporary Form I-551," with appropriate information filled in.
OTHER ELIGIBLE NONCITIZEN	
"Temporary Resident Card" Form I-688	Must have expiration date.
"Arrival-Departure Record" Form I-94	Must be stamped as a Refugee, Asylum Status, Conditonal Entrant (before April 1, 1980), Parollee, Cuban-Haitian Entrant.
Court order or INS letter confirming suspension of deportation	Either a copy of the order from the Immigration Judge, or a letter from the district INS office, with appropriate information.

CITIZEN NOT BORN IN U.S./NONCITIZEN NATIONAL

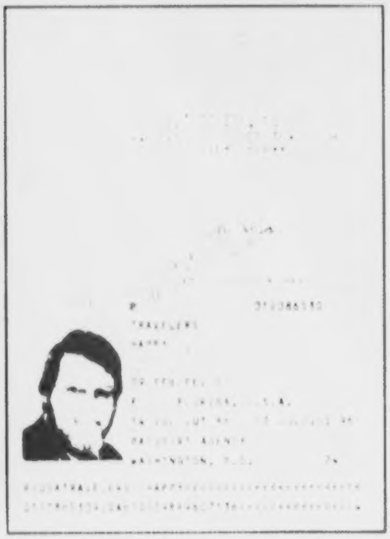
U.S. Passport

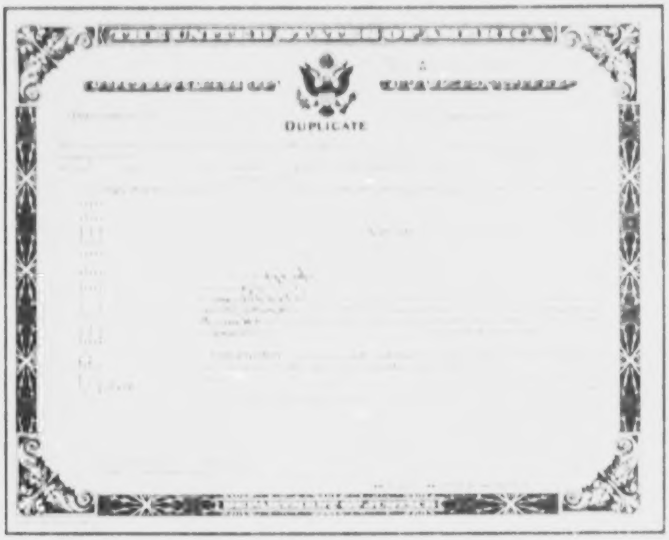
Can be used to document citizenship for citizen born abroad.

For noncitizen national -- must be stamped "Noncitizen National"

(Note that a passport issued by another country may be used to document permanent resident status, if it has the endorsement "Processed for I-551" and has a currently valid expiration date.)

PASSPORT
United States of America




DUPLICATE

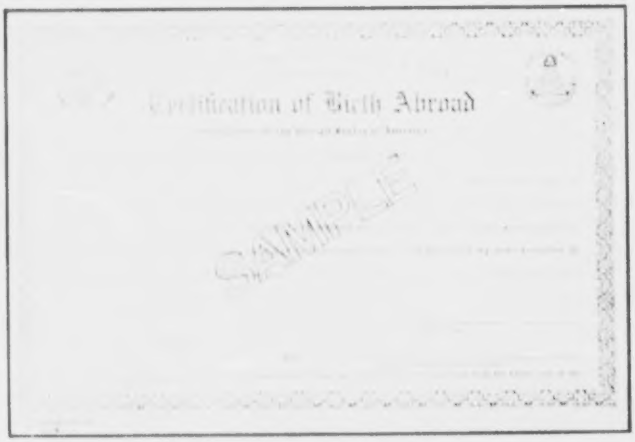
Certificate of Citizenship or Naturalization

The Certificate of Citizenship is issued to persons who were born abroad of U.S. parent(s); who became citizens when their parents were naturalized; or who were adopted by U.S. parents.

The Certificate of Naturalization is issued to naturalized U.S. citizens.

Certification of Birth Abroad

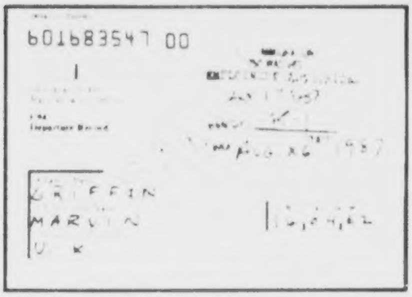
Issued to U.S. citizens born abroad. Must have embossed seal of the State Department.


Certification of Birth Abroad

SAMPLE

BEST COPY AVAILABLE

PERMANENT RESIDENT/OTHER ELIGIBLE NONCITIZEN

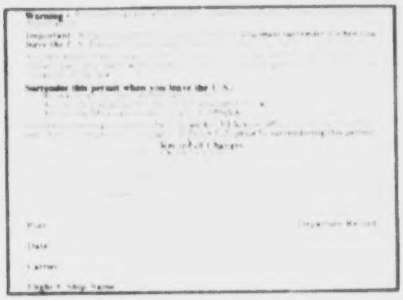


601683547 00

GRIFFIN

MARVIN

U K



Warning

Surrender this permit when you leave the U.S.

I-94 Arrival-Departure Record

For permanent resident status -- must be stamped "Processed for I-551" with expiration date, or "Temporary Form I-551," with appropriate information filled in.

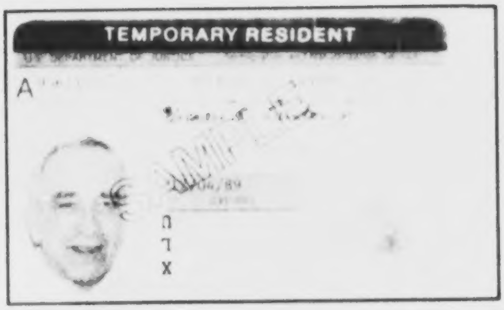
For other eligible noncitizens -- must be stamped as Refugee, Asylum Status, Conditional Entrant (before April 1, 1980), Parollee, Cuban-Haitian Entrant.

OTHER ELIGIBLE NONCITIZEN

Temporary Resident Card I-688

Issued to aliens who are granted temporary resident status under the Immigration and Reform Control Act of 1986. Note that a student with an "Employment Authorization Card" (I-688A) is *not eligible* for OSFA funds.

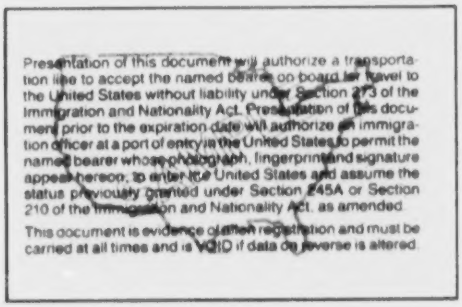
A student with an I-688B or I-766 may or may not be eligible for OSFA funds. Request additional INS documentation to determine this student's eligibility.



TEMPORARY RESIDENT

A

x



Presentation of this document will authorize a transportation line to accept the named bearer on board for travel to the United States without liability under Section 273 of the Immigration and Nationality Act. Presentation of this document prior to the expiration date will authorize an immigration officer at a port of entry in the United States to permit the named bearer whose photograph, fingerprint and signature appear hereon, to enter the United States and assume the status previously granted under Section 245A or Section 210 of the Immigration and Nationality Act, as amended.

This document is evidence of alien registration and must be carried at all times and is VOID if data on reverse is altered.

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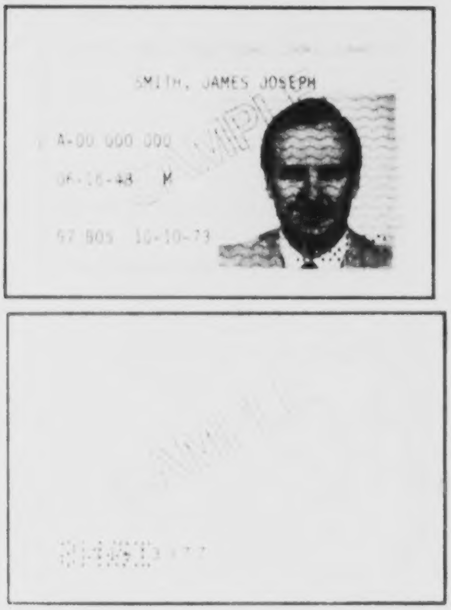


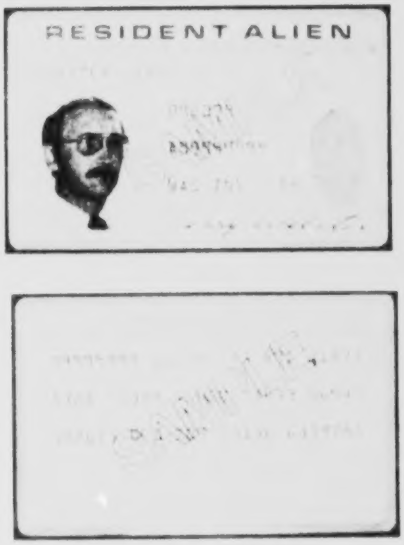
Alien Registration Receipt Card I-151

Issued prior to June 1978 to permanent residents. No longer issued, but valid indefinitely. Often referred to as a "green card," though it is not always green.

Alien Registration Receipt Card I-551 (Resident Alien Card)

Issued to permanent residents. The I-551 is a revised version of the I-151. Often referred to as a "green card," though it is not always green.

The "Conditional Resident Alien Card" is an I-551 that is issued to conditional permanent residents such as alien spouses. This card is identified by a "C" on the front, and has an expiration date on the back.



BEST COPY AVAILABLE

U.S. Department of Justice
Immigration and Naturalization Service

SAVE

OMB #1115-0122
Document Verification Request

Section A - *to be completed by the submitting agency.*

To: Immigration and Naturalization Service

From: Typed or Stamped Name and Address of Submitting Agency

Attn: Status Verifier

(INS may use above address with a #20 window envelope.)

1. Alien Registration or I-94 Number
2. Applicant's Name *(Last, First, Middle)*
3. Nationality
4. Date of Birth *(Month/Day/Year)*
5. Social Security Number
6. Verification Number
7. ☐ Photocopy of Document Attached.
   (If printed on both sides, attach a copy of the front and of the back.)
   ☐ Other Information Attached *(Specify documents).*

8. *(Benefit)*	*(Your Case Number)*
☐ AFDC	
☐ Education Grant/Loans/Workstudy	
☐ Food Stamp	
☐ Housing Assistance	
☐ Medicaid/Medical Assistance	
☐ Unemployment Insurance	
☐ Employment Authorization	
☐ **Other** *(specify)*	

9. Name of Submitting Official
10. Title of Submitting Official
11. Date
12. Telephone Number

Section B - *to be completed by INS*

INS RESPONSE: From the documents or information submitted and/or a review of our records we find that:

1. ☐ This document appears valid and relates to a **Lawful Permanent Resident alien** of the United States.
2. ☐ This document appears valid and relates to a **Conditional Resident alien** of the United States.
3. ☐ This document appears valid and relates to an alien **authorized employment** as indicated below:
   a. ☐ Full-Time
   b. ☐ Part-Time
   c. ☐ No Expiration (Indefinite)
   d. ☐ Expires on
   (specify Month/Day/Year, below)
4. ☐ This document appears valid and relates to an alien who has an application pending for
   (specify INS benefit below)
5. ☐ This document relates to an alien having been **granted asylum/refugee** status in the United States.
6. ☐ This document appears valid and relates to an alien **paroled** into the United States pursuant to Section 212 of the I&N Act.
7. ☐ This document appears valid and relates to an alien who is a **Cuban/Haitian entrant**.
8. ☐ This document appears valid and relates to an alien who is a **conditional entrant**.
9. ☐ This document appears valid and relates to an alien who is a **nonimmigrant**
   (specify type or class below)
10. ☐ This document appears valid and relates to an alien **not authorized employment** in the United States.
11. ☐ Continue to process as legal alien. INS is searching indices for further information.
12. ☐ This document is **not valid** because it appears to be *(check all that apply)*
    a. ☐ Expired
    b. ☐ Altered
    c. ☐ Counterfeit

INS Stamp

☐ **Please see reverse for additional comments.**

Form G-845S (Rev. 06/06/89) Y

Comments

13. ☐ No determination can be made from the information submitted. Please obtain a copy of the **original** alien registration documentation and resubmit.

14. ☐ No determination can be made without seeing **both** sides of the document submitted *(please resubmit request)*.

15. ☐ Copy of document is not readable *(please resubmit request)*.

"PRUCOL"

For Purposes Of Determining If Alien Is Permanently Residing Under Color Of Law Only!

16. ☐ INS actively pursues the expulsion of an alien in this class/category.

17. ☐ INS **is not** actively pursuing the expulsion of an alien in this class/category, at this time.

18. ☐ Other

Instructions

- **Submit copies of both *front and back* of alien's original documentation.**
- **Make certain a *complete return address* has been entered in the "From" portion of the form.**
- The Alien Registration Number ("A" Number) is the letter "A" followed by a series of (7) or (8) digits. Also in this block may be recorded the number found on Form I-94. (Check the front and back of the I-94 document and if the "A" Number appears, record that number when requesting information instead of the longer admission number as the "A" Number refers to the most integral record available.)
- If Form G-845 is submitted without copies of applicant's original documentation, it will be returned to the submitting agency without any action taken.
- Address this verification request to the local office of the Immigration and Naturalization Service.

GLOSSARY

You may encounter several unfamiliar terms in processing applications from noncitizens. The definitions in this glossary are informational in nature and should not be used for any other purpose. They do not represent any formal source or policy of the INS. Official definitions have been shortened or edited whenever possible.

Alien: Any person who is not a citizen or national of the United States.

Alien File (A-file): The history file containing all data and documentation pertaining to an individual alien. An A-file is created or amended when any one of several INS actions occurs, for example, applications for permanent resident status or for a Certificate of Citizenship. Alien Registration Numbers are assigned at the local File Control Office (FCO) processing the initial action.

Alien Registration Number (A-Number): A seven, eight, or nine digit number assigned to an alien at the time the Alien file is created.

Alien Status Verification Index (ASVI): A data base designed for the use of entitlement benefit agencies in verifying alien immigration status in accordance with the Immigration Reform and Control Act of 1986 (IRCA). This data base is commonly known as 'SAVE.'

Asylee: An alien, already in the United States or at a port of entry, who is granted asylum in the United States. Asylum can be granted to those persons who are unable or unwilling to return to their countries of nationality, or to seek the protection of those countries, because of persecution or a well-founded fear of persecution. Asylum is covered by Section 212 of the Immigration and Nationality Act of 1952 (I&NA). (See also definition for refugee.) **Central Index System (CIS):** An automated system containing information on aliens. The CIS, from which SAVE is extracted, is the INS's most complete data base on aliens in the United States.

Certificate of Citizenship: An identity document proving U.S. citizenship.

Certificate of Naturalization: An identity document proving U.S. citizenship.

Change of Nonimmigrant Status: The action of changing a nonimmigrant's classification, e.g. , from visitor to student.

Citizen: A person born in a country or who has become a naturalized citizen of that country.

Conditional Entrant: A refugee. (See definition for refugee.)

Conditional Resident Alien: An alien granted a two-year period of permanent resident status based on a "qualifying" marriage to a U.S. citizen or national, or permanent resident alien. Children of a U.S. citizen, national, or permanent resident alien also may have this status. The conditional status may be removed after two years, when INS rules favorably or unfavorably on granting lawful permanent resident status to the alien.

Cuban-Haitian Entrant: The status afforded to (a) Cubans who entered the United States illegally between April 15, 1980 and October 10, 1980, and to (b) Haitians who entered the country illegally before January 1,1981. This status is covered by Section 502(e) of the Immigration and Nationality Act.

Document Verification Request (Form G-845): A form designed to request Secondary Confirmation of alien status from INS under the Immigration Reform and Control Act of 1986.

Documented Alien: An alien in the U.S. who is in possession of valid documents.

File Control Office (FCO): An INS field office where Alien Files are maintained.

Green Card: A slang term describing the Alien Registration Receipt Card (Form I-151 or Form I-551). Many versions of these forms are not green in color.

Illegal Alien: A foreign national (a) who entered the U.S. without inspection or with fraudulent documentation or (b) who, after entering legally as a nonimmigrant, violated status and remained in the U.S. without authorization. (See also definition for *undocumented alien.*)

Immigrant: An alien who has been lawfully afforded the privilege of residing permanently in the U.S. His or her status allows authorization for work and entitlement benefits. (See also definitions for *lawful permanent resident alien* and *permanent resident alien.*)

Immigrant Visa: A document issued by a U.S. Consul abroad, which authorizes an alien to apply for admission as an immigrant to the United States.

Immigration and Nationality Act of 1952 (I&NA): Legislation that defined most immigration statuses now in use and formed the basis for U.S. immigration law and policies.

Immigation Reform and Control Act of 1986 (IRCA): Legislation passed to deter illegal immigration to the United States, using employer sanctions and status verification, and to allow legalization of specific groups of aliens.

Immigration Status: The legal status conferred on an alien by immigration law.

Immigration Status Verifier (ISV): An INS employee or contractor that performs secondary verification duties at local File Control Offices.

Lawful Permanent Resident Alien: An alien who has been lawfully afforded the privilege of residing permanently in the U.S. (See also definitions for *immigrant* and *permanent resident alien.*)

Legalization: A program whereby an illegal alien may receive amnesty and adjust his immigration status to that of a temporary resident. The alien must establish proof of entry prior to January 1, 1982, and continuous unlawful residence since that time. This program is covered by section 245(A) (c)(5) of IRCA.

Nationality: The state or country to which a person owes legal allegiance. Note that the country of birth does not necessarily correspond to the nationality.

Naturalization: The conferring of nationality of a state or country upon a person who has been born under allegiance to another nation.

Nonimmigrant: An alien who seeks temporary entry to the United States for a specific purpose. This category includes foreign government officials, visitors for business and pleasure, and students. Some nonimmigrants have specialized employment privileges, for example, foreign nationals who are employees of the U.S. office of a foreign-owned company.

Nonimmigrant Information System (NIIS): The INS online files that store information on nonimmigrants in the U.S., such as foreign visitors, government personnel, and ship and flight crews.

Parolee: An alien, who appears to be inadmissible to the inspecting officer, who is allowed to enter the U.S under emergency conditions or when that alien's entry is determined to be in the public interest. Although parolees are required to leave when the conditions supporting their parole cease to exist, they may sometimes adjust immigration status to asylee. Parolee status is covered by Section 212 of the I&NA.

Passport: Any travel document issued by competent authority showing the bearer's origin, identity, and nationality which is valid for the entry of the bearer into a foreign country.

Permanent Resident Alien: A person who enters the country with an immigrant visa or adjusts his status after entering as a nonimmigrant, refugee, or asylee. Persons with this status are entitled to live and work in the U.S. and collect entitlement benefits, if qualified. (See also definitions for *immigrant* and *lawful permanent resident.*)

Primary Confirmation: A query to confirm alien documentation using the ASVI data base.

PRUCOL: A person permanently residing in the U.S. under color of law. This is not a status as defined by the I&NA of 1952. Not eligible for Title IV programs.

Refugee: Any person who is outside his country of nationality who is unable or unwilling to return to that country because of persecution or a well-founded fear of persecution. Unlike asylees, refugees apply for and receive this status prior to entry into the U.S. This status is covered by Section 207 (formerly Section 203 (a)(7)) of the I&NA. (See also definition for *asylee.*)

Refugee Conditional Entrant: An alien who entered the United States or who adjusted his status to Lawful Permanent Resident under the seventh preference category of Public Law 89-236, which was enacted in 1965. This status was established by Section 203 (a)(7) of the I&NA, but was abolished by the Refugee Act of 1980 (Public Law 96-212).

Secondary Confirmation: A request to validate alien documentation, after or in lieu of primary confirmation, using a Form G-845. Secondary confirmation is performed by the immigration status verifier, using various automated and manual sources.

Special Agricultural Worker (SAW): An alien who has resided in the United States and performed agricultural labor for at least 90 man-days during the one year period prior to May 1, 1986. This alien may be granted temporary lawful resident alien status. The SAW status is limited to the first 350,000 aliens that apply. This program is covered under Section 210(b)(6) of IRCA.

Student/Schools System (STSC): The INS online file that contains information on foreign students in U.S. academic and vocational educational institutions.

Systematic Alien Verfication for Entitlements (SAVE): An automated or manual information sharing program whereby institutions can certify the immigration status of alien applicants for Federal student financial aid. (See also Alien Status Verification Index)

Temporary Lawful Resident Alien: An alien granted a one-year period of lawful resident status based on his qualifications under the legalization or SAW programs. The temporary status may be removed after one year, when the INS rules favorably or unfavorably on granting permanent resident status to the alien.

Undocumented Alien: An alien in the U.S. without proper documentation. He or she is in violation of U.S. immigration law. (See also definition for *illegal alien.*)

United States: Defined in a geographic sense as the continental United States, Alaska, Hawaii, Puerto Rico, Guam, U.S. Virgin Islands, and Northern Mariana Islands.

FILE CONTROL OFFICE ADDRESSES
(Immigration and Naturalization Service)

ALASKA

Anchorage
INS
620 East 10th Avenue
Suite 102
Anchorage, AK 99501-7581
907-271-5029

ARIZONA

Phoenix
INS
2035 North Central Avenue
Phoenix, AZ 85004
FTS: 261-6651
602-261-4115

CALIFORNIA

Los Angeles
INS
300 North Los Angeles Street
Los Angeles, CA 90012
FTS: 798-6285/6286
213-894-6285/6286

San Diego
INS
880 Front Street
San Diego, CA 92188
FTS: 895-5885/5886
619-557-5885/5886

San Francisco
INS
Appraisers Building, Room 300
630 Sansome Street
San Francisco, CA 94111
FTS: 465-4585
705-415-4585

COLORADO

Denver
INS
4730 Paris Street
Denver, CO 80239
303-371-4415

CONNECTICUT

Hartford
INS
Ribicoff Federal Building
450 Main Street
Hartford, CT 06013-3060
FTS: 244-3166
203-240-3166

FLORIDA

Miami
INS
7880 Biscayne Boulevard
Miami, FL 33138
FTS: 350-5703/5704/4896
305-536-5703/5704/4896

GEORGIA

Atlanta
INS
77 Forsyth Street
Atlanta, GA 30303
FTS: 841-3251/7290
404-331-3251/7290

HAWAII

Honolulu
INS
595 Ala Moana Boulevard
P.O. Box 461
Honolulu, HI 96818
FTS: 551-1371
808-541-1373

ILLINOIS

Chicago
INS
10 West Jackson Street
Chicago, IL 60604
FTS: 886-0909
312-886-0909

INDIANA

Indianapolis
INS
48 East Ohio Street, Room 124
Indianapolis, IN 46204
FTS: 331-6213/6207
317-269-6213/6207

LOUISIANA

New Orleans
INS
Postal Service Building, Room T-8005
701 Loyola Avenue
New Orleans, LA 70113
FTS: 682-2988/2336
504-589-2988

MAINE

Portland
INS
739 Warren Avenue
Portland, ME 04103
FTS: 833-3443/3266
207-780-3443/3266

MARYLAND

Baltimore
INS
E.A. Garmatz Federal Building, Room 1100
101 West Lombard Street
Baltimore, MD 21201
FTS: 922-2436/2437
301-962-2436/2437

MASSACHUSETTS

Boston
INS
JFK Federal Building
Government Center
Boston, MA 02203
FTS: 835-3040/3046/3048
617-565-3040/3046/3048

MICHIGAN

Detroit
INS
Federal Building
333 Mount Elliott Street
Detroit, MI 48207
FTS: 226-3263/3264
313-226-3263/3264

MINNESOTA

St. Paul
INS
2901 Metro Drive, Suite 100
St. Paul, MN 55425
FTS: 784-2235/2236
612-335-2235/2236

MISSOURI

Kansas City
INS
9747 North Conant Avenue
Kansas City, MO 64153
816-891-0640

St. Louis
INS
1222 Spruce Street, Room 1.100
St. Louis, MO 63103
FTS: 262-2534/2535
314-539-2534/2535

MONTANA

Helena
INS
Federal Building, Room 512
310 South Park, Drawer 10036
Helena, MT 59626
FTS: 585-5034/5428
406-449-5034/5428

NEBRASKA

Lincoln
INS
Federal Building and U.S. Courthouse
Lincoln, NE 68508
FTS: 541-5216/5217/5218
402-437-5216/5217/5218

Omaha
INS
3736 South 132nd Street
Omaha, NE 68144
402-697-9210/9211

NEVADA

Las Vegas
INS
300 Las Vegas Boulevard South, Room 104
Las Vegas, NV 89101
FTS: 598-6649/6908
702-388-6649/6908

Reno
INS
350 South Rock Street
Reno, NV 89502
602-627-8816

NEW JERSEY

Newark
INS
Federal Building
970 Broad Street
Newark, NJ 07102
FTS: 341-4537/4538/4539
201-645-4537/4538/4539

NEW YORK

Albany
INS
U.S. Post Office and Courthouse, Room 220
445 Broadway
Albany, NY 12207
FTS: 562-2416
518-472-2416

Buffalo
INS
U.S. Courthouse
55 Court Street
Buffalo, NY 14202
FTS: 437-5154
716-846-5154

NEW YORK (continued)

New York
INS
26 Federal Plaza
New York, NY 10007
FTS: 264-5872/1025
212-264-5872/1025

NORTH CAROLINA

Charlotte
INS
6 Woodlawn Green, Suite 138
Charlotte, NC 28217
FTS: 672-6328/6332
704-371-6328/6332

OHIO

Cincinnati
INS
Federal Building, Room 8525
550 Main Street, P.O. Box 537
Cincinnati, OH 45202
FTS: 684-2935
513-684-2935

Cleveland
INS
1240 East 9th Street
Room 1917
Cleveland, OH 44199
FTS: 942-2268/2612
216-552-2268/2612

OKLAHOMA (see Dallas, Texas)

OREGON

Portland

INS
Federal Office Building
511 Northwest Broadway
Portland, OR 97209
FTS: 423-7174/7184
503-326-7174/7184

PENNSYLVANIA

Philadelphia

INS
1600 Callowhill Street
Philadelphia, PA 19130
FTS: 597-5809/5810
215-597-5809/5810

Pittsburgh

INS
Federal Building, Room 2130
1000 Liberty Avenue
Pittsburgh, PA 15222
FTS: 722-4551/4552
412-644-4551/4552

PUERTO RICO

San Juan

INS
GPO Box 5068
San Juan, PR 00936
FTS: 498-5278/5021
809-766-5278/5021

RHODE ISLAND

Providence

INS
U.S. Post Office and Federal Building
Room 203
Exchange Terrace
Providence, RI 02903
FTS: 838-5147
401-528-5147

TENNESSEE

Memphis
INS
245 Wagner Place
Suite 250
Memphis, TN 38103
FTS: 222-3089
901-544-3089

TEXAS

Dallas
INS
8101 Stemmons Freeway
Dallas, TX 75247
FTS: 255-3073/3080
214-655-3073/3080

El Paso
INS
700 East San Antonio
P.O. Box 9398
El Paso, TX 79984
FTS: 570-6365/6642/6643
915-543-6365/6642/6643

Harlingen
INS
603 Ed Carey Drive
Harlingen, TX 78550
FTS: 529-8607/8691
512-427-8607/8691

Houston
INS
509 North Belt
Houston, TX 77060
FTS: 526-4750/4751
713-229-4750-4751

San Antonio
INS
U.S. Federal Building, Suite A301
727 East Durango
San Antonio, TX 78206
FTS: 730-4475/4476/4477
512-229-4475/4476/4477

UTAH

Salt Lake City
INS
230 West 400 South Street
Salt Lake City, UT 84101
FTS: 588-3563
801-524-3563

VERMONT

St. Albans
INS
Federal Building
P.O. Box 328
St. Albans, VT 05478
FTS: 832-6506
802-527-6506

VIRGINIA

Arlington
INS
4420 North Fairfax Drive
Arlington, VA 22203
FTS: 367-1626/1627
202-307-1626/1627

Norfolk
INS
Norfolk Federal Building, Room 439
200 Granby Mall
Norfolk, VA 23510
FTS: 827-3103/3895
804-441-3103/3895

VIRGIN ISLANDS

St. Thomas
INS
Federal District Court Building
P.O. Box 610, Charlotte Amalie
St. Thomas, VI 00801
809-774-1390

WASHINGTON

Seattle
INS
815 Airport Way South
Seattle, WA 98134
FTS: 399-2319
206-442-2319

Spokane
INS
U.S. Courthouse, Room 691
Spokane, WA 99201
FTS: 439-2374
509-353-2374

WISCONSIN

Milwaukee
INS
Federal Building, Room 186
517 East Wisconsin Avenue
Milwaukee, WI 53202
FTS: 362-3564/3571
414-291-3564/3571

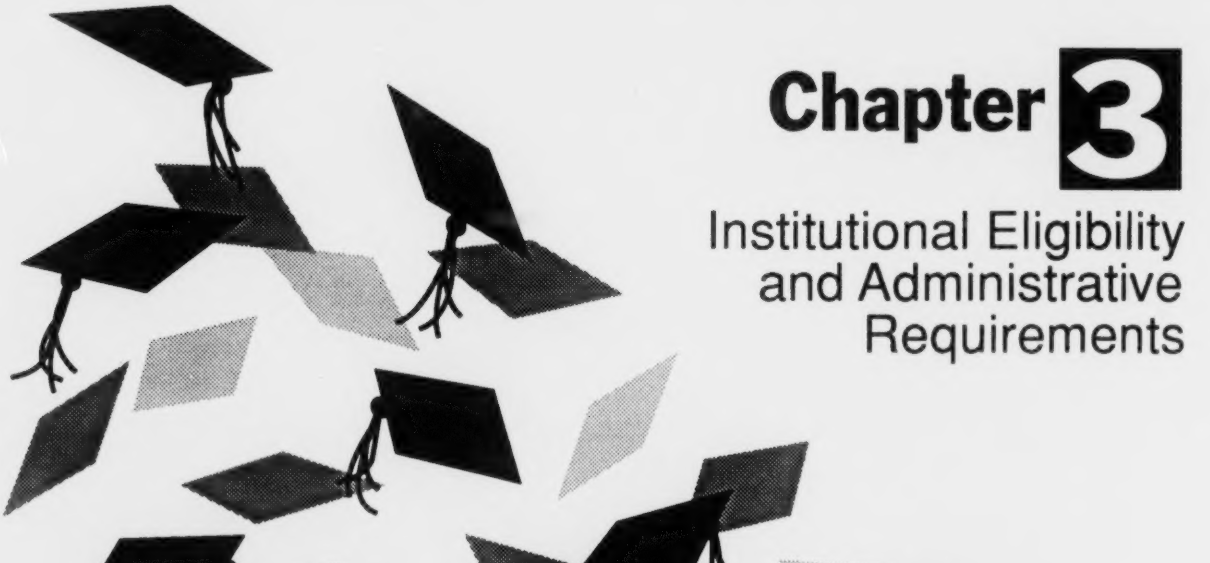
United States
Department of
Education

Office of
Student Financial
Assistance

The Federal Student Financial Aid Handbook, 1992-93

Chapter 3

Institutional Eligibility and Administrative Requirements



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INTRODUCTION

The purpose of this chapter of the *Federal Student Financial Aid Handbook* is to describe how a school becomes eligible to participate in the SFA programs, and to explain the administrative requirements that apply to all of the SFA programs. In addition to school and program eligibility, this chapter discusses refund calculations, satisfactory academic progress, proper documentation and recordkeeping, and other issues relevant to the general administration of the SFA programs.

Section One explains the statutory definitions for eligible institutions. Even if your school already participates in the SFA programs, you may still want to review this section briefly to make sure that all programs at your school are eligible. **Section Two** gives an overview of the general administrative requirements for the SFA programs, including the effect of withdrawal and default rates on a school's administrative capability. **Sections Three and Four** explain two particular administrative requirements in detail: the use of financial aid transcripts for transfer students, and refund and repayment calculations for students who withdraw from the school. **Section Five** discusses the use of agreements between school to pay students who are taking courses in an eligible program at more than one school. Audits, program reviews, and quality control are discussed in **Section Six. Section Seven** discusses recordkeeping requirements. The student consumer information in **Section Eight** has been expanded to include drug prevention, campus security, and program completion information. **Section Nine** explains how to apply for eligibility, how to report changes in a school's location or to its educational programs, and the consequences of loss of eligibility and corrective actions taken by the Department.

RECENT CHANGES

Last year, after the 1991-92 *Handbook* had already gone to print, the Department issued two Dear Colleague Letters (GEN-91-14 and GEN-91-27) to further clarify and explain requirements of the Student Right to Know and Campus Security Act (P.L. 101-542). Section Eight of this year's *Handbook* has been updated to include the information from these two letters, along with the Department's most recent guidance on the subject. As this publication goes to print, a Notice of Proposed Rulemaking has gone forward. When the NPRM is published, the public will have an opportunity to comment and final regulations will be issued.

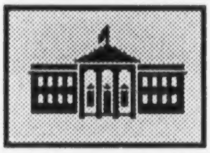
There have also been changes to the General Provisions (34 CFR Part 600) since the publication of the 1991-91 *Handbook*. Section Nine has been updated to reflect the new accountability regulations, which were published on July 31, 1991, to be effective on September 14, 1991. Specifically, the regulations' major changes include more stringent requirements for reporting changes in control.

SECTION ONE: INSTITUTIONAL AND PROGRAM ELIGIBILITY

This section will discuss the four types of institutions that are eligible to participate in the SFA programs, and the effect the institutional eligibility requirements have on program eligibility. It is not safe to assume that every program at an eligible institution is an eligible program, or that every eligible program at the school has to have the same minimum program length or admissions standards.

If your school is applying for eligibility for the first time, please refer to Section Nine of this chapter. Section Nine also discusses other changes in eligibility, such as loss of eligibility and change of ownership.

THE FOUR DEFINITIONS OF ELIGIBLE INSTITUTIONS



Common Elements

The Institutional Eligibility regulations (34 CFR Part 600, published on April 5, 1988) define four types of eligible institutions. (Refer to chart following page 3-5). The regulatory definitions are based on definitions found in the Higher Education Act of 1965, as amended. The definitions have a number of common elements, in particular, minimum program length, admissions standards, degree or certificate programs, legal authorization, and accreditation. We will discuss some of the key elements of the four definitions in the following pages, with special attention to those requirements that affect the definition of an eligible program.

School may meet more than one definition

Although the eligibility criteria defined for each of the four types of institutions listed below differ somewhat, these types of schools are not mutually exclusive. For example, a school that meets the definition of a Vocational School is only eligible to participate in the Stafford/SLS/ PLUS programs. However, if that school also meets one of the other definitions, then it would be eligible to participate in the other SFA programs. Similarly, a proprietary school is not eligible under the Stafford, SLS, or PLUS programs unless it also meets the definition for a vocational school.

CONTROL AND LEGAL AUTHORIZATION

The "control" of an institution is a term used to distinguish whether the school is public or private, nonprofit or for-profit.

Public/ private, nonprofit/ for-profit

Under the institutional definitions, an "institution of higher education" or a "postsecondary vocational institution" can be either public or private, but is always nonprofit. A "proprietary institution of higher education" is always a private, for-profit institution. The definition of control for a "vocational school" is broad enough to meet the definition of control at any of the other types of institutions — a "vocational school" program may be offered at a school that is private or public, nonprofit or for-profit.

A nonprofit institution —

❶ is owned and operated by one or more nonprofit corporations or associations whose net earnings do not benefit any private shareholder or individual,

❷ is legally authorized to operate as a nonprofit organization by each State in which it is physically located, and

❸ is determined by IRS to be eligible for tax-deductible contributions under Section 501(c)(3) of the Internal Revenue Service (IRS) Code.

School must be located "in a State"

With the exception of certain foreign schools that are eligible under the GSL programs, an eligible institution under any of the four definitions must be located in a State. The definition of a "State" includes not only the 50 States of the Union, but also American Samoa, Puerto Rico, the District of Columbia, Guam, the Trust Territory, the Virgin Islands, and the Northern Mariana Islands. A school's campus or place of instruction must be physically located in that State for the school to be considered located in that State. There is an exception for correspondence schools — a correspondence school is considered to be located in the State where its administrative office is located (as well as any State in which it offers residential training).

Authorization by State

To qualify under any of the four institutional definitions, a school must be legally authorized by the State in which it offers a postsecondary educational program to provide such a program. The State's legal authorization may be provided by the licensing board or education agency. In some cases, the institution's charter is its legal authorization. In other cases, a school is considered to be legally authorized if State law does not require it to have a license or other formal approval.

ADMISSIONS STANDARDS

Admissions standards—ability to benefit removed

Each definition (see chart on following pages) includes a provision specifying the admissions standards that apply to that type of postsecondary school. Generally, an eligible school may only admit as regular students persons who have a high school diploma or its recognized equivalent, or who are beyond the age of compulsory school attendance.* (Note the exception for vocational schools that only participate in the GSL programs, as given on page 3-7.)

Recognized Equivalent of a High School Diploma — Either a General Education Development Certificate (GED) or a State certificate received after a student has passed a State-authorized examination that the State recognizes as the equivalent of a high school diploma.

Regular student —A regular student is a person who is enrolled (or is accepted for enrollment) in an eligible program for the purpose of obtaining a degree, certificate, or other recognized credential.

Student may certify that H.S. diploma/ GED was granted

The school may rely on the student's certification that he or she has received a high school diploma or GED, but it must keep a copy of the student's certification. (This certification need not be a separate document — it may be collected as a question on the school's application.) The school may require the student to provide supporting documentation if it wishes.

Other alternatives to high school diploma

There are exceptions for students who have clearly demonstrated academic aptitude, but for other reasons have not received a high school diploma. For a student who has successfully completed a two-year program that is acceptable for full credit toward a bachelor's degree, but does not have a high school diploma, the student's academic transcript is considered the recognized equivalent of a high school diploma. A student who has excelled academically in high school and who has met formalized, written admission policies of a postsecondary school is also considered to have the equivalent of a high school diploma. These students may be eligible to receive SFA funds without having to pass an ED-approved test, provided they are no longer enrolled in high school.

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*Students who are beyond the age of compulsory attendance, but do not have a high school diploma or its recognized equivalent, must pass a written test to be eligible for Federal student aid. For more information on this student eligibility requirement, see Chapter Two of this Handbook. (The "ability to benefit" requirement has been removed from the law and is no longer an admissions requirement for an eligible program.)

ELIGIBLE SCHOOL DEFINITIONS: COMMON ELEMENTS

Institution of Higher Education*

(eligible for all SFA programs)

Control: A public or nonprofit educational institution located in a State.

Admissions: Admits as regular students only persons with a high school diploma or its recognized equivalent, or persons beyond the age of compulsory school attendance in the State where the institution is located.

Legal authorization: Is legally authorized, by the State where it offers postsecondary education, to provide a postsecondary educational program.

Program offered: Provides ***1)*** an associate, baccalaureate, graduate, or professional degree (or other recognized education credential), or ***2)*** at least a two-year program that is acceptable for full credit toward a bachelor's degree, or ***3)*** at least a one-year educational program that leads to a degree or certificate (or other recognized education credential) and prepares students for gainful employment in a recognized occupation.

Accreditation: Is accredited by a nationally recognized accrediting agency, or has fulfilled one of the statutory alternatives to accreditation.

Proprietary Institution of Higher Education

(not eligible for Stafford/SLS/PLUS)

Control: An educational institution other than a public or nonprofit institution, located in a State.

Admissions: Admits as regular students only persons with a high school diploma or its recognized equivalent, or persons beyond the age of compulsory school attendance in the State where the institution is located.

Legal authorization: Is legally authorized, by the State where it offers postsecondary education, to provide a postsecondary educational program.

Program offered: Provides at least a six-month program of training leading to a degree or certificate (or other recognized education credential), that prepares students for employment in a recognized occupation.

Accreditation: Is accredited by a nationally recognized accrediting agency.

Two-year rule: Has been legally authorized to give (and has been giving) postsecondary instruction for at least two consecutive years.

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*For Stafford/SLS/PLUS only, this definition includes a hospital or health care facility which offers a one-year degree or certificate program for graduates of accredited health professions programs.

ELIGIBLE SCHOOL DEFINITIONS: COMMON ELEMENTS

Postsecondary Vocational Institution

(not eligible for Stafford/SLS/PLUS)

Control: A public or private nonprofit educational institution located in a State.

Admissions: Admits as regular students only persons with a high school diploma or its recognized equivalent, or persons beyond the age of compulsory school attendance in the State where the institution is located.

Legal authorization: Is legally authorized, by the State where it offers postsecondary education, to provide a postsecondary educational program.

Program offered: Provides at least a six-month program leading to a degree or certificate (or other recognized education credential), that prepares students for employment in a recognized occupation.

Accreditation: Is accredited by a nationally recognized accrediting agency, or has fulfilled one of the statutory alternatives to accreditation.

Two-year Rule: Has been legally authorized to give (and has been giving) postsecondary instruction for at least two years.

Vocational School

(eligible for Stafford/SLS/PLUS only)

Control: A business or trade school, technical institution, or other technical or vocational school, which may be public, nonprofit, or for-profit, that is located in a State.

Admissions: Admits as regular students only persons who have completed or left elementary or secondary school or who are beyond the age of compulsory school attendance in the State where the institution is located.

Legal authorization: Is legally authorized, by the State where it offers postsecondary education, to provide a program of postsecondary vocational or technical education.

Program offered: Provides a postsecondary educational program of at least 300 clock hours (or 8 semester or trimester hours, or 12 quarter hours) leading to a degree or certificate (or other recognized education credential). The program must be designed to provide occupational skills to prepare students for employment in a recognized occupation. Correspondence programs must require at least an average of 12 hours of preparation per week over each12-week period and completion of a minimum of 300 clock hours in not less than six months.

Accreditation: Is accredited by a nationally recognized accrediting agency, or is a public postsecondary vocational institution approved by a State agency listed by the Department of Education.

Two-year Rule: Has been authorized to give (and has been giving) instruction for at least two years. (The Department may make exceptions under 34 CFR Part 600.7(a)(5)(ii).)

School must make GED program available

A school that admits students who do not have a high school diploma or recognized equivalent must make a GED preparatory program available to its students. The course does not have to be provided by the school itself, and the school is not required to pay the costs for the program. The GED program must be offered at a place that is convenient for the students, and the school must take reasonable steps to ensure that its students have access to the program, such as coordinating the timing of its program offerings with that of the GED program. The school must provide information about the availability of the GED program to affected students. The GED program must be proven successful — such programs include GED programs that are conducted by State and local secondary school authorities, as well as programs for which the school has documentation that statistically demonstrates the success of the program.

The law does not require a school to verify that a student is enrolled in a GED program, or to monitor the student's progress in the program. A student who does not have a high school diploma or recognized equivalent is not required by law to enroll in a GED program, but the school may choose to make this an admissions requirement. A student may not receive SFA funds for the GED program, although he or she may be paid for postsecondary coursework taken at the same time as the GED coursework, including remedial coursework at the secondary level or higher. It is the school's responsibility to determine whether a remedial education program is at the secondary level. However, if any of the following entities determines that a remedial program is at the elementary level, the school must abide by that determination:

- The State legal authority
- The school's accrediting agency
- The State agency recognized for the approval of public postsecondary vocational education

For further information regarding remedial coursework, including the admission of students without a high school diploma or GED equivalent, see Chapter Two.

PROGRAM OFFERED AND MINIMUM PROGRAM LENGTH

Certificate or degree

All four institutional definitions require the school to provide at least one educational program that leads to a degree, certificate, or other recognized educational credential. In the case of an "institution of higher education," two-year programs that are acceptable for full credit toward a baccalaureate degree are also eligible, even if those programs do not offer a degree.

Recognized occupation

The institutional definitions also require eligible one-year, six-month, and three-month programs to provide training to prepare students for a "recognized occupation." A recognized occupation is either one that is listed in the "occupational division" of the Dictionary of Occupational Titles (published by the U.S. Department of Labor), or one that is considered by the Department, in consultation with the Department of Labor, to be a recognized occupation.

Minimum length

One of the important differences in these four definitions is the minimum program length at the school. An *institution of higher education* must have either a degree program or certificate program of at least one academic year's duration to be eligible, while the minimum program length for a *proprietary institution of higher education* or a *postsecondary vocational institution* is the equivalent of six months of instruction. However, most schools which meet the definition of an institution of higher education also meet the definition for a postsecondary vocational institution. For most schools, then, the minimum program length is six months. The definition for a *vocational school* (which is only eligible for the Stafford, SLS, and PLUS programs) has an even shorter program length: the equivalent of three months of instruction. Note that there may be ineligible programs at the school that do not meet the minimum program length, but *at least one* of the programs at the school must meet the minimum program length for the school to be eligible.

Effect on program eligibility

The concept of minimum program length is not only important for institutional eligibility, but also applies to *program eligibility.* This means that a student might be enrolled at an eligible school that has a one-year program, but the particular program the student is enrolled in might be ineligible for Pell Grants because it is only three months long.

Length in credit and clock hours

A one-year program is defined as at least 24 semester or trimester hours or 36 quarter hours at a school that uses credit hours, 900 clock hours of supervised training at a clock-hour school, or 900 clock hours of preparation in a correspondence program. The phrase "one-year program" is based on the concept of a traditional academic year, which generally consists of eight to nine months of training. Thus, the definition of a six-month program is based on 2/3 of the coursework for an academic year. A three-month program for vocational schools (GSL only) is half the minimum for a six-month program.*

MINIMUM PROGRAM LENGTH

ONE-YEAR (public/private nonprofit institution)	SIX-MONTH * (proprietary or postsecondary vocational)	THREE-MONTH ** (vocational school--Stafford/SLS/PLUS only)
24 Semester or Trimester Hours	16 Semester or Trimester Hours	8 Semester or Trimester Hours
36 Quarter Hours	24 Quarter Hours	12 Quarter Hours
900 Clock Hours	600 Clock Hours	300 Clock Hours

Units of measurement — clock hours vs. credit hours

The regulations measure a student's period of attendance according to several commonly accepted academic standards. A clock hour is based on an actual hour of attendance, though each hour may include a 10-minute break. Credit hours are typically based on two hours of homework for each hour of class attendance.

It is not allowable to count more than one clock hour per 60-minute period; in other words, a school cannot schedule several hours of instruction without breaks, and then count clock hours in 50-minute increments. The result would be that seven hours of consecutive instruction would count as 8.4 clock hours (420 minutes ÷ 50 minutes = 8.4 hours). This is not allowable; seven real-time attendance hours cannot count for more than seven clock hours.

Semester vs. quarter credits

The difference between semester and quarter credit hours is significant. A semester term at a traditional school may last 16 weeks, allowing for 15 weeks of classes and an exam week. Thus, one semester hour would consist of 15 hours of class and 30 hours of preparation. Because an academic quarter consists of 10 weeks of class and an exam week, a quarter hour would be made up of 10 hours of class and 20 hours of preparation. Based on this comparison, a quarter hour represents 2/3 of the academic work required by a semester hour. The difference between semester and quarter hours is reflected in the standards for minimum program length — a six-month training program must be at least 16 semester hours or 24 quarter hours. The same distinction is made between semester and quarter credits when defining an academic year and full-time enrollment.

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* The institutional eligibility regulations (§600.2) make an exception for a program shorter than these minimum lengths if the schools accrediting agency determines that the program is the equivalent of a six-month training program, and the Department concurs with this determination.

** A correspondence program must require at least an average of 12 hours of preparation per week over each 12-week period, and completion of a minimum of 300 clock hours in not less than six months.

Clock hour measurement required for some schools

In some cases, the Institutional Eligibility regulations (published April 5, 1988) may require a school to use clock hours for purposes of SFA program eligibility. As defined in the regulations, a school must use clock hours as a unit of measurement for the SFA programs if the State licensing agency requires a school to measure its educational programs in clock hours —

1. In order to be legally authorized to provide a postsecondary program, or
2. As a part of the application process for receiving a license, charter or other document that demonstrates that the school is legally authorized to provide a postsecondary program.

If the use of clock hours rather than credit hours affects the length of the program, the program may become ineligible, or the amount of Pell Grant or SLS assistance a student may receive in the program may be reduced.

Implementation

Schools were required to implement this change as of October 1, 1989. In addition, Dear Colleague GEN-89-54 provided further information on how to convert from credit hour to clock hour measurements for purposes of program eligibility and Pell Grant calculations. If your school is affected by this requirement, it should now be using clock hours to determine program eligibility and to calculate Pell Grant and SLS awards.

ACCREDITATION

Generally, an institution must be accredited by a nationally recognized accrediting agency to be eligible. (An institution may be pre-accredited by an agency or association that has been approved by the Secretary to grant such accreditation.) The Department periodically publishes a list of recognized accrediting bodies in the **Federal Register**, based on criteria given in 34 CFR Part 602. Copies of this list are also available from —

U.S. Department of Education
Accrediting Agency Evaluation Branch
Room 3036 ROB-3, 7th & D Sts., SW
Washington, DC 20202

Nationally Recognized Accrediting Agency or Association — An accrediting agency or association which the Secretary of Education has recognized to accredit or pre-accredit a particular category of institution, school, or educational program in accordance with the provisions in 34 CFR Parts 602 and 603.

Pre-accredited — A status granted by a nationally recognized accrediting agency or association to a public or private nonprofit institution that is progressing towards accreditation within a reasonable period of time. The pre-accredited status must be recognized by the Department.

Loss of accreditation

Generally, when a school loses its accreditation, it is no longer eligible to participate in the SFA programs. The school must notify the Department within 30 days of its loss of accreditation. See Section Nine of this Chapter for more information on loss of accreditation and loss of eligibility.

Statutory alternatives to accreditation

There are three statutory alternatives available to unaccredited public or nonprofit institutions that are applying for eligibility as Institutions of Higher Education or Postsecondary Vocational Institutions:

1. ***Satisfactory assurance.*** The Department determines that an institution of higher education or a postsecondary vocational institution provides satisfactory assurance of accreditation if it is accorded pre-accredited status (candidacy status) by a nationally recognized accrediting agency. Under this procedure, the accrediting agency or association determines whether the unaccredited institution will meet its standards for accreditation within a reasonable period of time. If the accrediting agency or association so decides, it awards that institution pre-accredited status.

2. ***Transfer of Credit.*** The institution must demonstrate that its credits are accepted on transfer by not less than three institutions that are accredited by nationally recognized accrediting agencies, and that these credits are accepted on the same basis as if transferred from an institution so accredited. At least four regular students from the non-accredited institution must have transferred to each of the three accredited institutions. Note that a student who remains enrolled at the unaccredited institution after enrolling at the accredited institution will *not* be considered as having transferred to the accredited institution. See 34 CFR Part 600.8 for a detailed discussion of the information that the non-accredited school must provide to the Department when applying under this alternative.

3. ***State approval.*** A public institution providing postsecondary vocational education may be approved by a State agency that has been listed by the Department of Education in the **Federal Register** as a reliable authority on the quality of public postsecondary vocational education in the State.

Schools wishing to apply under these procedures should contact the Division of Eligibility and Certification (DEC) for further information. (See Chapter One for the address.)

Review of changes in accreditation

The Department will not recognize a school's accreditation if the school is in the process of receiving new accreditation or changing its accrediting agency or association, unless the school submits to the Department all materials relating to the prior accreditation, including materials demonstrating reasonable cause for changing accrediting agencies.

"TWO-YEAR" RULE

The definitions for a proprietary institution, vocational school, and postsecondary vocational institution require that such an institution have provided postsecondary instruction (and been legally authorized to provide such instruction) for at least two consecutive years. (Usually, the two-year rule does not apply to locations being added by an eligible school.)

FOREIGN SCHOOLS ELIGIBLE FOR GUARANTEED STUDENT LOANS

Requirements for foreign medical schools

The statute and regulations for the guaranteed student loan programs permit foreign schools to participate in the those programs if they are comparable to an institution of higher education or a vocational school, as defined above (also see Chapter Ten). The Higher Education Amendments of 1986 added an eligibility requirement for foreign medical schools: at least 60 percent of the students enrolled in the school must be nationals of the country in which the school is located. A school not meeting the 60 percent requirement can still be eligible if not less than 45 percent of the U.S. nationals graduating from the school pass the examination given by the Educational Commission for Foreign Medical Graduates (ECFMG) during 1987 and 1988, and in subsequent years not less than 50 percent pass the ECFMG examination.

INTERPRETING ELIGIBLE PROGRAM REQUIREMENTS

Except as noted in Chapter Two, Section One, a student must be enrolled in an eligible program to receive SFA funds. A school's eligibility does not necessarily extend to all its programs, as is illustrated on the next page. A program is eligible if it: 1) is separately identifiable and leads to a degree, certificate, or other recognized education credential, and 2) meets the requirements for eligibility under one of the four definitions of an eligible institution explained earlier in this section.

"Not all programs at an eligible school are eligible for SFA funds…"

OTHELLO UNIVERSITY

Eligible to participate in the SFA programs under the definitions of an *institution of higher education* and a *postsecondary vocational institution*

Eligible

BACCALAUREATE DEGREE
(program leads to a four-year degree; requires HS diploma or GED)

PRE-MEDICAL COURSEWORK
(two-year program doesn't lead to a degree; counts for full credit toward baccalaureate degree)

REMEDIAL COURSEWORK
(classes are part of an eligible program)

Ineligible

TEACHER'S AIDE PROGRAM
(three-month program is shorter than required minimum length)

CONTINUING EDUCATION
(program doesn't lead to a degree)

UNACCREDITED BUSINESS PROGRAM
(program is not accredited)

ARCHITECTURAL POST-GRAD WORK
(one-year program for professional license doesn't lead to a degree)

ADVANCED PLACEMENT COURSEWORK
(taken by HS students,coursework doesn't lead to a postsecondary degree)

Two of the basic characteristics of an eligible program are length and the education credentials offered. In most cases, an eligible program must be at least a six-month training program (600 clock hours, 16 semester or trimester hours, or 24 quarter hours). However, at a vocational school (eligible only for guaranteed loans), an eligible program can be as short as 300 clock hours. The program must lead to a certificate, degree, or other recognized education credential, or be at least a two-year program that is acceptable for full credit towards a bachelor's degree.

Program eligibility

A school's eligibility extends to all programs and locations that were identified on the school's application for eligibility, unless the Department determined that certain school programs or locations did not meet the eligibility requirements. In such a case, the school's eligible programs and locations are specifically named on the eligibility notice.

School must check program eligibility

Note that the school is responsible for ensuring that a program is eligible under current SFA and institutional eligibility regulations *before* it awards SFA funds to students in that program. The school should review such factors as the length of the program, the program's admissions requirements, and the degree or certificate awarded the student when the program is completed. In addition, the school should make sure that the program is included under the notice of accreditation from a nationally recognized accrediting agency (unless the agency does not have requirements for accrediting particular programs), and is authorized by the appropriate State agency to offer the program, if the State licenses individual programs at postsecondary institutions.

Programs that meet more than one definition

As noted before, a school could have educational programs that meet more than one statutory definition. (A four-year college or a proprietary school may have some programs that only meet the definition for a vocational school, and thus are only eligible for guaranteed loans.) In such a case, it is important to know which requirements take precedence.

Example of overlapping definitions

For instance, if a school has a 300-clock hour program that meets the definition for a *vocational school,* eligible students in that program may receive guaranteed loans (but not Pell Grants or campus-based aid). If this program were 600 clock hours in length, the program might possibly meet the definition of either a *proprietary or postsecondary vocational institution,* and thus be eligible for Pell Grant and campus-based aid.

ADDITIONAL ELIGIBLE PROGRAM PROVISIONS

Several SFA programs have additional requirements that an educational program must meet to be eligible. Only *undergraduate educational programs* are eligible under the Pell Grant, ICL, and SEOG programs. To participate in the Pell Grant Program, a *correspondence study program* must meet the general requirements for an eligible program, and be designed to require at least 12 hours of preparation per week.

ESL programs

A separate program of study in *English as a Second Language* is eligible for Pell Grant assistance if it meets the general requirements for an eligible program and only admits students who need instruction in English to be able to use the knowledge, training, or skills they already have. The school must document for each student that it admits to the ESL program that the program is necessary for the student to be able to use existing knowledge, training, or skills. Note that an ESL program is only an eligible program for Pell Grant purposes. A school may request a determination from DEC as to the eligibility of an ESL program. (Please remember that a student may receive SFA funds for ESL coursework that is part of a larger eligible program.) Unlike other remedial courses, elementary level ESL courses are eligible for SFA funds.

Flight school

Under the GSL programs, a *flight school program* must maintain current valid certification by the Federal Aviation Administration to be eligible.

SECTION TWO: ADMINISTRATIVE AND FISCAL STANDARDS

Administrative requirements found in Participation Agreement and regulations

The Program Participation Agreement lists some of the basic administrative requirements for a school to participate in the SFA programs.* When entering into an Agreement, the school must demonstrate that it is financially responsible and administratively capable of providing the education it promises and of properly managing the SFA programs. After the school is certified to participate in the SFA programs, it must administer SFA funds in a prudent and responsible manner.

Other administrative requirements are included in the Student Assistance General Provisions and the regulations for each program. For instance, the General Provisions require a school to maintain fidelity bond coverage on its employees, to maintain a system to ensure the consistency of information concerning its students, and to provide adequate counseling for its students. The school may not employ as financial aid staff persons who have been debarred or suspended from Federal funding, or who have misused SFA funds.

Trusteeship of SFA funds

All SFA funds a school receives are held in trust by the school solely for the intended student beneficiaries. A school may contract with a consultant for assistance in administering the SFA programs. However, the school ultimately is responsible for the use of SFA funds and will be held accountable if the consultant mismanages the programs.

Recent law and regulations have added new administrative requirements that a school must meet to continue to be eligible for SFA funds. The June 5, 1989 Default Reduction Initiative regulations reemphasized that a high default rate will be considered a sign that the school is not properly administering SFA funds. And the law now requires schools to have a drug-free awareness program.

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* An eligible school must enter into a Program Participation Agreement with the Department to be able to receive and disburse Pell Grant and campus-based funds, or to certify GSL applications. See Section Nine for more information about the Agreement.

FINANCIAL RESPONSIBILITY

The General Provisions set forth the standards that are used to ascertain the financial responsibility of schools that participate in the SFA programs (34 CFR Part 668.13). To be financially responsible, a school must —

Standards of financial responsibility

- provide all the services listed in its official publications and statements,
- provide the administrative resources necessary to comply with the SFA program requirements, and
- meet all its financial obligations, which includes making refunds to students (see Section Four of this chapter) and repaying any SFA program liabilities.

Operating losses, deficit net worth, etc.

A school is *not* considered financially responsible if it has had operating losses during its last two fiscal years, or a deficit net worth for its latest fiscal year (a deficit net worth occurs when the school's liabilities exceed its assets). Also, if a school uses an *accrual basis of accounting,* the school is not considered financially responsible if it has less than a 1:1 ratio of current assets to current liabilities at the end of its latest fiscal year. If a school uses a *fund accounting system*, the school is not considered financially responsible if its unrestricted operating fund reflects sustained material deficits during, at a minimum, its two most recent fiscal years.

The Department may determine that a school is financially responsible, in spite of its failing to meet the criteria that we have just mentioned, if the school submits a letter of credit payable to ED, a performance bond in the amount specified by ED, or any other document requested by ED that demonstrates that the school has sufficient financial responsibility to participate in any SFA program.

Documents that may be requested by ED

The Department determines whether a school is financially responsible by reviewing documents submitted by the school, and information from other sources, including credit information. If the Department requests, a school must submit for its latest complete fiscal year and current fiscal year either—

- a profit and loss statement and a balance sheet that are based on the same basis of accounting used by the school for financial reporting, or
- the report from a financial audit conducted by a licensed certified public accountant in accordance with generally accepted auditing standards.

When requesting these documents, the Department may also require the school to submit the accountant's or auditor's work papers. In addition, the Department may require that the profit and loss statement and balance sheet be audited and certified by a certified public accountant (CPA), in accordance with generally accepted auditing standards, at the school's expense.

Fidelity Bond Coverage

A school also demonstrates its financial responsibility by maintaining fidelity bonds on its employees. A fidelity bond indemnifies the holder against losses resulting from fraud or lack of integrity, honesty, or fidelity on the part of its employees or officers. Most schools already maintain these bonds because State laws require them and because schools need to protect themselves against fraud. The Department of Education has not defined adequate bond coverage in the General Provisions, but recommends that the coverage be equal to at least 1/12 of the total SFA funds at the school for the award year. (Actual amount for participating schools; estimated amount for initial applicants.)

Schools must obtain coverage from a company that holds a certificate of authority as an acceptable surety agent. The Department of the Treasury issues these certificates, and a list of acceptable surety agents is published annually as Department of Treasury Circular 570. (Public schools already bonded by their State governments against theft or embezzlement are not required to obtain additional coverage.) The fidelity bond must be kept current and the amount of coverage increased as necessary to maintain the 1/12 ratio to SFA funds.

Persons convicted of crimes involving Federal funds

A school is not considered financially responsible if any of the following persons or entities has been convicted, or has pled guilty or *nolo contendre* to a crime involving the acquisition, use, or expenditure of Federal funds, or has been judged to have committed fraud involving Federal funds:

- the school, its owners, or its chief executive officer
- any of the school's employees involved in the administration of SFA funds
- any individual, agency, or organization that the school uses, or any officer or employee of the agency or organization

The Department may decide that the school is financially responsible in spite of such a violation, if the funds involved have been repaid and any related financial penalty has been paid, the individuals involved are no longer incarcerated for that crime, and at least five years have passed from the date of the conviction, plea, or judicial determination.

However, because such a violation also calls into question the school's fiduciary responsibility, it can be grounds for automatic termination of the school's eligibility. See the discussion on fiduciary responsibility later in this section.

Recent changes in the General Provisions require that a school report any changes of control under which a person acquires the ability to affect substantially the actions of the school. Such changes in control could call into question the school's financial responsibility. For more information on these new accountability requirements, see Section Nine of this chapter.

STANDARDS OF ADMINISTRATIVE CAPABILITY

Coordination of aid

The school's financial aid administrator plays a very important role in the administration of SFA program funds. For this reason, 34 CFR Part 668.14 of the General Provisions requires a school to designate a capable individual to administer the SFA programs and to coordinate aid under these programs with the school's other Federal and non-Federal student aid programs. The school's administration must be coordinated in such a way that all the information it receives that concerns a student's eligibility under the SFA programs — from any school office — is communicated to the financial aid administrator. A capable administrator makes the most effective use of various types of student assistance (Federal, school, State, private, etc.). To properly package student aid, a financial aid administrator must be aware of all sources of aid at the school, and be able to coordinate with all financial aid programs a school offers to ensure that a student's aid does not exceed his or her need.

Consistency of student information

The school must have a system that identifies and resolves any discrepancies in the information received by various school offices that would affect a student's eligibility for SFA funds. Such a system would include a review of all financial aid documents, need analysis documents, Statements of Educational Purpose and Registration Status, Federal and State income tax forms, and documents relating to admissions, citizenship, and previous educational experience. For instance, if a student receives veterans benefits through a separate office at the school, that office must notify the financial aid administrator of these benefits so that the financial aid office can make sure that the amounts are correctly reported on the student's financial aid application, and are counted as a resource for the campus-based programs and estimated financial assistance for the guaranteed loan programs. As another example, the school's admissions office must provide the financial aid office with any information that it has that affects the student's eligibility — whether the student is enrolled in an eligible program, whether the student is an undergraduate or has a bachelor's degree, etc.

Referrals to OIG or law enforcement agency

If, in the course of reviewing a student's information, the school finds that the student may have engaged in fraud or other criminal misconduct in applying for SFA funds, the school must refer this information to the ED Office of Inspector General (OIG), or, if more appropriate, to a State or local law enforcement agency that has jurisdiction to investigate the matter. (The school must report to OIG each calendar year any referrals made to State or local law enforcement agencies during that calendar year.) The regulations give five examples of types of fraudulent information that might affect the student's eligibility for aid: the use of false identities, forgery of signatures or certifications, and false claims of income, citizenship, or independent student status.

Counseling

The school is responsible for providing adequate financial aid counseling to all enrolled and prospective students and their families. Counseling sessions must include, at a minimum, information about the source and amount of each type of aid offered, the method by which aid is determined and disbursed or applied to a student's account, and the rights and responsibilities of the student associated with the student's enrollment and receipt of financial aid. This information should include a description of the school's refund policy, satisfactory progress standards, and any other conditions or factors that may affect the student's aid package. The school must also provide entrance and exit counseling for student borrowers in the Perkins, Stafford, and SLS programs. (See Section Eight of this chapter, and Section Nine of Chapter Ten for further information on counseling and student consumer information.)

Capability of FAA

The financial aid administrator's capability will ultimately reflect the school's capability, as measured by prompt school actions, submission of accurate reports, and favorable program reviews and audits. In addition to the training series offered by the Department, ED strongly endorses seminars and workshops offered by appropriate professional organizations as excellent ways of developing skilled administrators.

Adequate Staffing

To manage a school's aid programs effectively, the aid administrator must be supported by an adequate number of professional, paraprofessional, and clerical personnel. An "adequate" staff depends on the number of students aided, the number and types of programs in which the school participates, the number of applicants evaluated and processed, the amount of funds administered, and the type of financial aid delivery system the school uses. What may be adequate at one school may be completely insufficient at another. The Department will determine, on a case-by-case basis, whether a school has an adequate number of qualified persons, based on program reviews and audits and the information the school provides on its eligibility application. (See Section Nine for information on the eligibility application.)

Separation of Function

In addition to making sure it has a well-organized financial aid office staffed by capable personnel, a school must make sure its procedures for administering the SFA programs include an adequate system of internal checks and balances. This system, at a minimum, must separate the functions of *authorizing payment* and *disbursing funds* so that no one person or office exercises both functions for any student receiving financial assistance. Small schools are not exempt from this requirement, even though they may have limited staff. At a small school with a limited staff, individuals working in either authorization or disbursement may perform other functions as well.

34 CFR Part 668.14 also mentions that the school must have a policy to measure the academic progress of its students, and lists the elements of a reasonable standard of satisfactory progress. We have already given an overview of satisfactory progress in our discussion of student eligibility (Chapter Two, Section One).

ADDITIONAL FACTORS OF ADMINISTRATIVE CAPABILITY

A school's administrative capability may be seriously questioned when —

Indications of poor program administration

- ◆ the loan default rate for Perkins loans made to students for attendance at the school exceeds 20 percent of the principal of all loans that have reached repayment status.
- ◆ the cohort default rate for Stafford or SLS loans made to students for attendance at the school exceeds 20 percent of the principal of all loans that have reached repayment status. (See Chapter Ten, Section Eight for more information on the calculation of this rate and default reduction requirements.)
- ◆ for a school that has a common academic year for a majority of its students, more than 33 percent of the regular students enrolled on the first day of classes of an academic year withdraw during that year.
- ◆ for a school that does not have a common academic year for a majority of its students, more than 33 percent of the regular students enrolled on the first day of classes of any eight-month period withdraw during that period.

Calculating the withdrawal rate

All regular, enrolled students must be included when calculating the withdrawal rate. The definition of "enrolled" does not require either payment of tuition or class attendance; therefore, the withdrawal rate calculation must include enrolled students who have not yet paid tuition or who did not actually begin attending classes. A student is considered to have withdrawn if he or she officially withdraws, unofficially drops out, or is expelled from the school. Students who withdraw from one or more courses or programs, but do not withdraw entirely from the school, do not meet the definition of "withdrawn."

Enrolled— a student enrolls when he or she completes the registration requirements (except payment of tuition and fees) at the school. Correspondence students are enrolled if they have been admitted to the program and have submitted one lesson (that was completed without the assistance of a school representative).

Note that the 33 percent withdrawal rate applies to all regular students enrolled in a school — not just to recipients of SFA funds.

Information to be provided by school to ED by school

If the Department of Education determines that proper SFA program management is impaired because of a school's excessive loan default or student withdrawal rate, the school may be asked to submit certain financial documents for its latest complete fiscal year, as itemized in 34 CFR Part 668.15(c) and (d). If the Department then decides that serious problems exist in the management of the SFA programs, it will require the school to take reasonable and appropriate measures to alleviate the conditions. The school has 35 calendar days to respond to this notice by demonstrating that the conditions do not have an adverse effect on the administration of the SFA programs.

As a part of the Default Reduction Initiative (regulations published June 5, 1989), schools whose Stafford/SLS default rate exceeds 20 percent will be required to implement a default reduction plan. Additional requirements and restrictions apply to schools with default rates of 30 percent or higher. In addition, the law now provides that schools with default rates of 35 percent or more for three consecutive years will not be eligible to participate in the GSL programs, effective July 1, 1991. Schools with default rates of 30 percent or more may no longer certify SLS applications. (See Chapter Ten, Section Eight.)

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* The school must invest cash from its Perkins Loan fund in an appropriate account to increase the fund account. All earnings on such investments must be deposited into the school's Perkins Loan Program revolving fund (§674.8(a)).

FIDUCIARY RESPONSIBILITY

In general, the funds that the school receives under the SFA programs are intended solely for the use of the student beneficiaries. The exception is those funds that the school receives as an administrative cost allowance, which are intended as a payment to the school. All other funds are held in trust by the school for those students, and for the Department. The school must administer or account for SFA funds in accordance with the highest standards of due diligence. With the exception of the school's Perkins Loan fund, these funds may not be held in interest-bearing accounts, or otherwise invested, or used as collateral, or for any other purpose.*

Persons convicted of crimes involving Federal funds

As discussed previously, a school violates its fiduciary responsibility if certain administrators, financial aid personnel, or contract servicers have been convicted, or has pled guilty or *nolo contendre* to a crime involving Federal funds, or has been judged to have committed fraud involving Federal funds. Such a violation is grounds for automatic termination of the school's eligibility. See the discussion on financial responsibility earlier in this section.

GENERAL ADMINISTRATIVE REQUIREMENTS

For the most part, the administrative requirements contained in Federal law and regulations focus on the awarding and disbursement of SFA program funds at the school. However, there are several administrative and operational practices that are prohibited.

Processing fee for SFA funds prohibited

The Higher Education Amendments of 1986 prohibit a school from charging a student for processing or handling any application, form, or data used to determine a student's financial need or eligibility for SFA funds. For instance, the school may not charge (or include in the student's cost of attendance) a fee for certifying a loan application, filling out a loan deferment form, processing a Pell Grant payment, conducting verification, or sending or requesting a financial aid transcript.

Use of free Federal form

A student may always use the free Federal form (the Application for Federal Student Aid) if the student is only applying for aid from the SFA programs. However, a school may require the use of an application that charges a processing fee, if the student is applying for non-Federal aid at that school.

Credit to accounts and commissioned salespersons

The 1986 Amendments also prohibit a school from using a Pell Grant to credit a student's account for more than the outstanding amount of tuition and fees and the student's room and board contract (if any) at the school, unless the student gives the school written permission. The regulations for the guaranteed loan programs prohibit the school from using commissioned salespersons to promote the availability of the Stafford, SLS, and PLUS loans. (See Chapters Four and Ten for more information).

As noted in the previous chapter, when a school signs the Program Participation Agreement, it agrees to comply with the civil rights and privacy requirements contained in the Code of Federal Regulations (CFR). These requirements apply to all students in the educational program, not just the recipients of Federal funds.

ADMINISTRATIVE COST ALLOWANCE

The law authorizes the Department to pay an administrative cost allowance to schools to offset some of the cost of delivering SFA funds to students. The administrative cost allowance is determined by regulatory formula, and applies to the Pell Grant and campus-based programs.

Pell Grant allowance

For the Pell Grant Program, the administrative cost allowance is five dollars for each student at the school who receives a Pell Grant. The Department calculates the Pell allowance for each school based on the number of Pell recipients that the school has reported to the Department. The total number of student recipients includes students who withdraw from school or transfer, even if all Pell Grant funds were recovered. Schools are notified of their Pell Grant administrative cost allowance through a "Dear Financial Aid Administrator" and authorization letter that is sent three times during the processing year. The Pell allowance is paid directly to the school by the U.S. Treasury.

Campus-based allowance

For the campus-based programs, a school calculates its own administrative cost allowance when it completes its Fiscal Operations Report and Application to Participate (FISAP) each year. The calculation is based on a percentage of the school's expenditures for each campus-based program in the previous award year (see Chapter Five, Section Five). Unlike the Pell Grant Program, the school must draw down the campus-based administrative cost allowance from the ED Payment System.

ANTI-DRUG ABUSE REQUIREMENTS

The law requires a school to certify to the Department that it has in operation a drug abuse prevention program that is accessible to students, employees, and officers of the school. Two recent laws have added drug abuse prevention measures that must be taken by postsecondary schools that receive SFA funds.

The Drug-Free Workplace Act of 1988 (P.L. 101-690) requires a *Federal grant recipient* to certify that it provides a drug-free workplace. Because a school applies for and receives its campus-based allocation directly from the Department, the school is considered to be a "grantee" for purposes of the Act. Therefore, to receive campus-based funds, a school must complete the certification on ED Form 80-0013, which is sent to schools in the summer of each year, as an enclosure to the FISAP (application for campus-based funds). This certification must be signed by the Chief Executive Officer of the school, or another official of the school who has the authority to sign the certification on behalf of the entire institution.

Requirements for a drug-free workplace

The certification lists a number of steps that the school must take to provide a drug-free workplace, including —

- Establishing a drug-free awareness program to provide information to employees,
- Distributing a notice to its employees of prohibited unlawful activities and the actions the school will take against an employee who violates these prohibitions, and
- Notifying the Department and taking appropriate action when it learns that an employee has been convicted under any criminal drug statute.

Note that the school's administrative cost allowance may be used to help defray the expenses associated with these steps, such as the cost of printing informational materials given to employees.

Scope of drug-free workplace

The drug-free workplace requirements apply to all offices and departments of a school that receives campus-based funds. Note that organizations that contract with the school are considered "subgrantees" — only grantees are subject to the requirements of the Drug-Free Workplace Act. Thus, if the school has a contractual relationship with a private servicer (for instance, to assist in administering campus-based funds), the school is not responsible for ensuring that the servicer has carried out the steps for maintaining a drug-free workplace that are listed above.

The Drug-Free Schools and Communities Act (P.L. 101-226) requires a school to certify that it has adopted and implemented a program to prevent drug and alcohol abuse by its students. Unlike the annual drug-free workplace certification, a school usually will only submit this new certification to the Department once. (An exception would be a school that changes ownership.)

Information to be distributed to students

The drug prevention program adopted by the school must include annual distribution to all students and employees of information concerning drug and alcohol abuse. Essentially, this corresponds to the steps that must be taken by schools that receive *campus-based funding,* as described above. However, the new legislation requires that these steps be taken by schools that receive *any Federal funding* and expands the required steps to include the school's students as well as its employees. The new law is also more specific in its description of the information that must be distributed by the school (see the consumer information requirements in Section Eight).

A school is also required to review its drug prevention program once every two years to determine its effectiveness and to ensure that its sanctions are being enforced. Final regulations implementing these requirements were published on August 16, 1990.

Developing a drug prevention program

The development of a drug prevention program, although it is a condition for SFA funds, is usually an enterprise that is undertaken by the school administration at large, not the financial aid office. The regulations published on August 16, 1990 and mailed to participating postsecondary schools offer a number of suggestions to help schools develop drug prevention programs. Several organizations that can serve as resources are listed on the next page.

Additional Sources of Information

The August 16, 1990 regulations list the following resources for schools that are developing drug prevention programs.

☎ *The National Institute on Drug Abuse Hotline.*

Information and referral line that directs callers to treatment centers in the local community. (1-800-662-HELP)

☎ *The National Institute on Drug Abuse Workplace Helpline.*

A line that provides information only to private entities about workplace programs and drug testing. Proprietary and private nonprofit but not public postsecondary schools may use this line.
(1-800-843-4971)

☎ *The National Clearinghouse for Alcohol and Drug Information.*

Information and referral line that distributes Department of Education publications about drug and alcohol prevention programs as well as material from other Federal agencies. (1-301-468-2600)

☎ *The Network of Colleges and Universities Committed to the Elimination of Drug and Alcohol Abuse.*

Established in 1987 as a joint effort of the Department and the higher education community to develop a response to alcohol and other drug problems on campus, including a set of standards for education programs, assessment techniques, and enforcement procedures. Information can also be provided about training and conferencing activities, and regional members of the network. (202-219-2265)

☎ *Department of Education Regional Centers Drug-Free Schools and Communities.*

Assist schools and other entities in developing prevention programs by providing training and technical assistance. (Northeast Region, 516-589-7022; Southeast Region, 502-588-0052; Midwest Region, 708-571-4714; Southwest Region, 405-325-1454; Western Region, 503-275-9480)

The regulations also suggest several ways that a school can measure the effectiveness of its drug prevention program:

Measuring the effectiveness of the program

- Tracking the number of drug- and alcohol-related disciplinary sanctions imposed
- Tracking the number of drug- and alcohol-related referrals for counseling and treatment
- Tracking the number of drug- and alcohol-related incidents recorded in the logs of campus police or other law enforcement officials
- Tracking the number of drug- and alcohol-related incidents of vandalism
- Tracking the number of students or employees attending self-help or other counseling groups related to alcohol or drug abuse
- Tracking student, faculty, and employee attitudes and perceptions about the drug and alcohol problem on campus

A school that does not certify that it has a drug prevention program, or that fails to carry out a drug prevention program, may lose its eligibility for Federal funds. (The regulations specify in greater detail the sanctions that will be imposed by the Department, as well as appeals procedures available to the school.)

DEBARMENT AND SUSPENSION CERTIFICATION

The debarment/suspension regulations, published May 26, 1988, require schools to certify that neither the school or its employees have been debarred or suspended by a Federal agency before it may receive Pell Grant or campus-based funds. This certification has been added to the Program Participation Agreement which all Title IV schools must sign. For schools participating in the campus-based programs, this certification is included with the Anti-Lobbying certification and the Drug-Free Workplace certification on ED Form 80-0013, which is a part of the FISAP package mailed to schools each summer.

Debarment of school or its principals

Essentially, if the school or its principals have been suspended or debarred by one Federal agency, the school is no longer eligible to participate in *any* SFA program. The *principals* of the school include the owner, the director, officers, partners, employees or any other person with primary management or supervisory responsibilities. A principal can also be someone who is not employed by the school, but who has critical influence on or substantive influence over a covered transaction (such as the receipt of Pell Grant or campus-based funds). For instance, the school may have some of its Pell Grant or campus-based awards processed by a consultant organization under contract — staff members of the consultant organization who process awards for the school would be considered principals of the school even though they are not directly employed by the school.

Reviewing eligibility of prospective employees

If a school becomes aware that a person it employs in a "primary management or supervisory capacity" has been suspended or debarred by a Federal agency, the school must remove that person from such a position or risk losing its eligibility for SFA funds. To protect itself, a school may wish to ask prospective employees if they have been previously debarred or suspended, either directly or by adding a question to the school's job application. A school may also call one of the following ED offices to find out if an individual or organization is on the Nonprocurement List (see Chapter One for phone numbers):

- Executive Office for Postsecondary Education
- Division of Eligibility and Certification
- Division of Audit and Program Review

Employees who do not participate in covered transactions

Persons at the school who do not work in the financial aid office may be suspended or debarred without affecting the school's eligibility for SFA funds. For example, a researcher in the school's physics department might have been debarred from receiving Federal funds for improper use of a research grant — the debarment probably would not affect the school's eligibility for SFA funds, because the researcher is not involved in any covered transactions.

"Lower-tier covered transactions"

A school is also prohibited from entering into *lower-tier covered transactions* with an individual or organization that has been debarred or suspended from Federal programs. A lower-tier covered transaction is any transaction between a participant in a covered transaction (such as the school) and another individual or organization, if that transaction stems from a covered transaction. Examples of common lower-tier covered transactions are a school's contracts with a financial aid consultant service, or with a loan collection or billing agency. A school must obtain a certification from any "lower-tier" organizations if the amount of the lower-tier transaction is $25,000 or more. (The required certification clause is given on Page 25 of Dear Colleague GEN-89-21.) It is the responsibility of the lower-tier organization to inform the school in writing if the organization or its principals are debarred or suspended. Therefore, the certification does not need to be renewed from year to year.

ANTI-LOBBYING CERTIFICATION AND DISCLOSURE

In accordance with P.L. 101-121 (and regulations published December 20, 1989), if your school received an allocation greater than $100,000 for its campus-based programs, it must provide the following documents to the Campus-Based Programs and Systems Branch, in the Division of Program Operations for each award year:

Forms required for schools with campus-based allocation over $100,000

- ***Certification Form*** (Combined with Debarment and Drug-Free Workplace certifications, ED-80-0013) States that the school will not use Federal funds to pay a person for lobbying activities in connection with Federal grants or cooperative agreements. This certification must be renewed each year for your school to be able to draw down campus-based funds. The form will be sent to affected schools after the campus-based allocations have been determined.

- ***Disclosure Form*** (Standard Form LLL) If the school has used *non-Federal* funds to pay a noninstitutional employee for lobbying activities, it must disclose these lobbying activities to the Department. The school must update this disclosure at least quarterly, when changes occur.

Both of these forms are sent to schools with the campus-based fiscal report/application (FISAP) each summer. The certification form and the disclosure form must be signed by the Chief Executive Officer (President, Owner, Chancellor, etc.) or other individual who has the authority to sign on behalf of the entire institution. Schools are advised to retain a copy in their files.

As far as SFA funds are concerned, this certification primarily covers the use of the administrative cost allowance for the campus-based programs. Several schools have asked whether they may use the administrative cost allowance to pay for their membership in professional associations (such as NASFAA, NATTS, AICS, or NACUBO) that represent their concerns to the administration and Congress. Regardless of whether the association engages in lobbying activities, a school may not use its administrative cost allowance to pay for an association membership. Association membership is not a legitimate administrative cost of the SFA programs.

Administrative cost allowance may not be used for membership fees

Note that the certification also includes a statement that the school will be responsible for payments *on its behalf*, and requires the school to include the certification in award documents for any subgrantees or contractors. For purposes of SFA funds, subgrantees are likely to be need analysis servicers, financial aid consultants, or other organizations that would be paid using the administrative cost allowance.

Certification by subgrantees and contractors

SECTION THREE: FINANCIAL AID TRANSCRIPT

Generally, when a student transfers from one school to another, the new school must receive a financial aid transcript from the previous schools the student has attended before it disburses Pell Grant, ICL, Stafford, SLS, or campus-based funds to the student or certifies a PLUS loan application. Exceptions to this requirement are discussed later in this section.

Purpose of the transcript

The information on the financial aid transcript is needed to monitor two aspects of student eligibility. First, the transcript tells the aid administrator how much aid a transfer student has received from the SFA programs at other schools. By using the transcript, the aid administrator can make sure that the student does not receive an overpayment. Most of the SFA programs have annual maximum limits; the loan programs also have cumulative maximum limits, as discussed in Chapter Two. Second, the transcript is used to prevent a student from receiving any SFA aid if he or she is in default or owes a repayment on an SFA grant or loan.

REQUESTING A TRANSCRIPT

Finding out if the student has attended other schools

The current school must determine if a student who applies for aid from the SFA programs previously attended other eligible schools. The preamble to the December 1, 1987 General Provisions states that the school must make an "active effort" to find out if the student previously attended other schools. For instance, most schools routinely ask prospective students to state their previous academic experience, either in the course of an admissions interview, or on the school's application. The financial aid administrator is responsible for ensuring the "consistency of information" at the school regarding a student's eligibility (see Section Two), and therefore must have a system to exchange such information with the admissions office.

If the school discovers that the student did attend another eligible school, it must obtain a financial aid transcript from that school (or schools, if the student attended more than one eligible institution). The financial aid transcript must be sent directly from the previous school to the current school (not to the student). The student may request that a transcript be sent, or the current school may make the request. In either case, the current school must document that a request was made. (Neither the school nor the student is required to request a transcript from a foreign school.)

If it appears that the student's previous school has since closed, the current school can request the Department's assistance in obtaining a financial aid transcript by writing to the following address:

Student Financial Aid Information Center
Financial Aid Transcript Request
Crossroads Venture Center
3 Commerce Drive
Cumberland, MD 21502

The current school will receive one of the following responses from the Department :

◆ Confirmation that the school has closed (or is ineligible to participate in the Title IV programs), and the name and address of the holder of the school's records

◆ Confirmation that the school has closed (or is ineligible to participate in the Title IV programs) and that the needed records are unavailable (in this case, the financial aid transcript requirement is waived)

◆ Confirmation that the school is currently in operation and is participating in the Title IV programs, and the school's new name (if applicable) and current address

PAYMENT AND CERTIFICATION OPTIONS

Pell, ICL, campus-based programs

Once the school has requested the financial aid transcript, it may pay the student under the Pell Grant, ICL, and campus-based programs for one payment period only. If a school exercises this option, after it receives the transcript it must make any necessary adjustments to the student's aid package before making another payment. The school is not liable for the amount of the first payment if it never receives the financial aid transcript (or if the transcript arrives and shows that the student is ineligible). However, the school may not make any subsequent payments to the student without receiving the transcript, and it must attempt to collect any overpayment from the student.

Stafford SLS

After requesting the transcript, the school may certify a Stafford or SLS application for the student, but it may not release the proceeds from the loan until after the transcript is received. If the school does elect to certify a Stafford or SLS loan application and then receives a financial aid transcript that shows the student to be ineligible for payment, the school must return the loan proceeds to the lender. In addition, please remember that the school may not hold the loan proceeds for more than 45 days — if the financial aid transcript(s) still have not arrived at the end of the 45 days, the school must return the loan proceeds to the lender.

PLUS

Because PLUS proceeds are sent directly from the lender to the parent who has borrowed the loan, the school may not certify a PLUS loan application until it has received the financial aid transcript(s).

Payment without transcript: no SFA funds received, records unavailable

In several cases, the regulations permit the school to pay a transfer student without receiving a financial aid transcript. The school may pay the student as usual if the previous school certifies that the student did not receive SFA funds, or that the record retention period for the student's period of attendance has expired and the previous school no longer has the student's records. (See Section Seven of this chapter for record retention requirements). The school may also pay without a transcript if it discovers that the previous school has closed and the requested information is not available, as discussed previously.

SENDING A TRANSCRIPT

Reasons for not sending transcript

When a school receives a request for a financial aid transcript, it must promptly provide the requested information on the transcript. If the student did not receive assistance from the SFA programs, or attended the school so long ago that the record retention period has lapsed and the school no longer has those records, the school must notify the requesting school in writing that a transcript will not be sent and specify the reason.

Listing other schools attended

If the school sending the transcript has any information indicating that the student had attended any other schools, it must include the names of those schools on the transcript (or in the written response, if the school is not required to send a transcript). When the school requesting the transcript finds that the student has attended another school, it must also request a transcript from that school.

The regulations do not allow a school to withhold a financial aid transcript for a student who owes a debt to the school (such as unpaid tuition and fees, or a library fine or parking fine). However, the Department does not discourage the withholding of academic transcripts in compliance with applicable State laws.

Signature requirement

A financial aid transcript must be signed by the person the school authorizes to sign transcripts and other financial aid documents; it does not need to be certified. Using a signature stamp to validate transcripts is also acceptable, if the stamp's use is restricted to specific financial aid personnel. In either case, a school is liable for any inaccurate information provided. Note that a school may accept a telecopied version of the financial transcript, provided it is properly completed and signed.

REQUIRED INFORMATION ITEMS

In accordance with the General Provisions and the law, the transcript must include the following information:

Required items

- *The student's name and social security number.*
- *Whether the student was treated as an independent student under an SFA program for the award year before the award year for which a financial aid transcript is requested.* Certain parts of the independent student definition for 1988-89 and later years are based on whether the student was considered independent in previous award years.
- *Whether the student is in default on an ICL, NDSL, or Perkins Loan, or owes a repayment on a Pell Grant or SEOG at that school.* The school should always be able to tell from its own records if the student is in default or owes a repayment for any of these programs, if the student attended within the record retention period.
- *If known, whether the student owes a repayment on an SSIG or is in default on a guaranteed loan at that school, or is in default on a Consolidation Loan.* In many cases, the guarantee agency or the State agency for SSIG will have informed the school if the student is in default on a Stafford, SLS, PLUS loan, or Consolidation Loan, or owes a repayment on an SSIG obtained at that school.

- *The student's Scheduled Pell Grant and the total amount actually paid to the student, for the award year in which the financial aid transcript is requested.*[*] These two numbers are used to figure the student's remaining Pell Grant eligibility (as described in Chapter Four, Section Two).

- *The total amount of any loans received by the student under the Perkins and NDSL programs at that school.* If the school participates in the ICL program, it must provide a separate total for ICL, as well.

- *Whether the student had an outstanding balance on an NDSL (either Defense or Direct) from that school on July 1, 1987.* This will affect whether the student can be considered a "new borrower" in the Perkins Loan Program. New borrowers of Perkins Loans are given a 9-month grace period, rather than the 6-month NDSL grace period.

- *The amount and period of each loan made to the student under the guaranteed loan programs at that school.* This includes PLUS loans taken out by the student's parents on the student's behalf.

Information about aid at other schools attended

When responding to a financial aid transcript request, a school is not required to include information about the amount of aid awarded at other schools or the student's default or overpayment status at other schools. However, as noted earlier, the school sending the transcript must list these other schools on the transcript, and the new school must make sure that it has received transcripts from those schools.

A school may decide to provide additional items of information such as types of work-study or cooperative education study performed, institutional scholarships awarded, or Pell Grant awards received in previous years. A school may also include in the transcript any information about a student's eligibility for, or receipt of, financial aid if the school considers that information useful to the school the student will be attending.

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[*] The Higher Education Amendments of 1986 set a 5-6 year limit on the duration of Pell Grant eligibility for students who first received a Pell Grant after June 30, 1987. However, a school is only required to report the receipt of a Pell Grant for the year in which the transcript is being requested. A student's use of Pell Grants at all schools will be tracked by the Federal processing system. When the student appears to have reached the limit, the Student Aid Report will include a note to that effect. An aid administrator may still override this limit, as discussed in Chapter Four, Section One.

MODEL TRANSCRIPT

Although there is no official form for the required financial aid transcript, the National Association of Student Financial Aid Administrators has developed a financial aid transcript form that schools may use as a model (see following pages). Financial aid administrators may receive a copy by writing NASFAA, 1920 L Street, N.W., Suite 200, Washington D.C. 20036.

Part I

Part II (must now include Stafford Loans)

Part 1 of the transcript contains identifying information for the student. This information may be filled out by the student or the requesting school. The student's signature is optional (however, the transcript must include the student's name and social security number). **Section A** must be filled out if the school filling out the transcript knows that the student attended other schools. **Section B** is used in those cases where the school is not required to complete the transcript, either because the student did not receive SFA funds at the school, or because the record retention period has expired and the records are no longer available. The first three items in **Section C** are used by the current school to determine if the student is an independent student and/or a "new borrower" under the Perkins Loan Program. The remaining items relate to the student's default and overpayment status on aid received at the school that is filling out the transcript. Note that this model transcript was developed before the name of the Guaranteed Student Loan Program was changed to the Stafford Loan Program. **Sections D and E** are used to report amounts of aid received from the SFA programs (and the period of the loan, for guaranteed loans). **Section F** is the signature block for the school sending the transcript.

FINANCIAL AID TRANSCRIPT

Instructions to the STUDENT. If you ever attended another postsecondary institution, you must complete Part I of this form and submit it to the Financial Aid Office of that institution. Federal regulations require that a Financial Aid Transcript request be sent to every institution you previously attended.

PART I: To be completed by the student.

Name__________________________________ Social Security #__________________
Last First M.I. Maiden

Name Used at previous institution (if different from above)______________________________

I request the Financial Aid Office at______________________________ which I attended from _____ to _____ to provide the information requested in Part II to the institution shown below:

I did ☐ did not ☐ receive aid while a student at this institution.

Student's Signature (optional):

____

Student's Address:

____

____

PART II: To be completed by the Student Financial Aid Office at the previous institution. Complete either Sections A, B and F, or Sections A and C through F.

SECTION A: Other Institutions Attended (Everyone must complete this section):

☐ The institution has information indicating the student attended the following institutions other than this institution:

____

____

SECTION B: To be completed if institution is not completing Sections C, D, and E.

☐ The student neither received nor benefited from any Title IV aid while at this institution.
☐ The transcript pertains solely to years for which the institution no longer has and is no longer required to keep records under the Title IV program recordkeeping requirements.

If you have completed Section A and checked on of the reasons in Section B, and are not required to provide any other information, skip Sections C, D, and E and complete Section F. Otherwise, proceed with Section C.

SECTION C: Complete the first statement and check all others that apply:

1. The student first received Title IV aid at this institution for award year ____________________
mo/yr - mo/yr

2. Check all that apply:
☐ The student received any Title IV aid as an independent student
  ☐ in the current (19 -19) award year;
  ☐ in the previous (19 -19) award year.
☐ The student had an outstanding balance on an NDSL loan at this institution on July 1, 1987.
☐ The student owes a refund on a Pell Grant or SEOG at this institution.
☐ The student is in default on a Perkins, NDSL, or Income Contingent Loan (ICL) at this institution.
☐ The institution knows the student owes a refund on SSIG received for attending this institution.
☐ The institution knows that the student is in default on a GSL, FISL, SLS, or PLUS (ALAS) loan made for attendance at this institution, or on a Consolidation Loan.

SECTION D: Assistance Received or Benefited From At This Institution

Amounts (exclude refunds)

Sources of Assistance	Current Year: 19 -19	Cumulative Total (include current year)
Pell Grant: Total Disbursement		xxxxxxxxxxxxxxxxxx
Scheduled Award		xxxxxxxxxxxxxxxxxx
SEOG		xxxxxxxxxxxxxxxxxx
Perkins/NDSL Loans	xxxxxxxxxxxxxxxxxx	
Income Contingent Loan (ICL)		
SSIG/State Grant (optional)		
Other aid* (optional; identify each)		

*If you participate in HEAL, Nursing Student Loan, or HPSL, include them here.

SECTION E: GSL/SLS/PLUS History At This Institution

1. List the period of the loan and amount of each GSL, SLS, and student PLUS loan received by the student for attendance at your institution (include current loans):

GSL		SLS		Student PLUS (ALAS)	
Period	Amount	Period	Amount	Period	Amount

2. List the period of the loan and amount of each PLUS loan received by the student's parents for the student's attendance at your institution (include current loans):

Period	Amount

SECTION F: This section must be completed.

Authorized Signature________________________ Date____________

Typed Name________________________ Title____________

Name of Institution________________________

Address________________________

____

Telephone________________________

Comments________________________

____

____

____

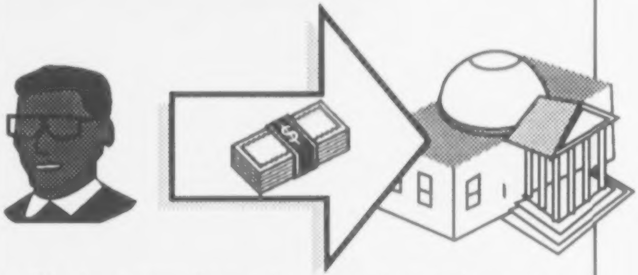
(Form developed by the National Association of Student Financial Aid Administrators)

SECTION FOUR: REFUNDS AND REPAYMENTS

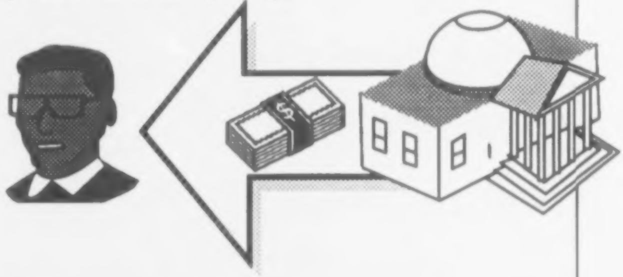
The most frequent source of confusion with regard to refunds and repayments is a misunderstanding as to how these terms are used in the General Provisions. For instance, we may say that a school "refunds" or "repays" financial aid to the SFA program fund if a student fails to enroll at the school. Many schools call the cash disbursement to a student a "refund," after the school has credited the student's account for tuition and fees and other charges. But "refunds" and "repayments," as discussed in this section, have a specific meaning.

When we use the word "refund" we are referring to a refund of school charges that the school makes to a student, usually after the student has withdrawn from school. Except for schools required to use a *pro rata* refund policy, the actual amount of the school's refund to the student is determined according to the school's policy. However, if the student received financial aid from the SFA programs (except CWS, Byrd, or Douglas), a portion of the refund must be returned to those programs.

Refund Situation

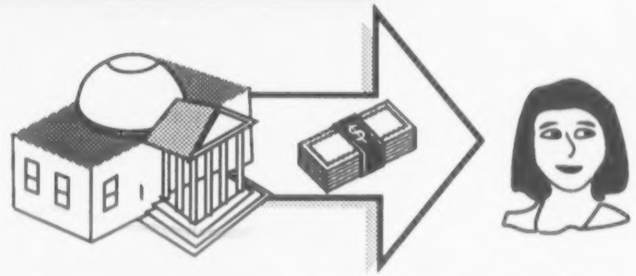


Student enrolls and pays school charges (tuition and fees, etc.).

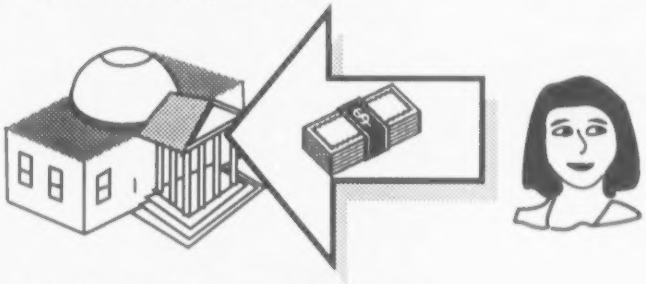


Student withdraws from school; school gives refund to student.

Repayment Situation



School makes cash disbursement to student at beginning of payment period.



Student withdraws from school; school determines amount of cash disbursement to be returned by student.

A "repayment" is the amount of the cash disbursement that a student must pay back to the school if the student withdraws from the program. (The cash disbursement is the payment from financial aid that the school makes to the student for living expenses, usually after the student's account has been credited for any school charges.) The school must decide if the cash disbursement was greater than the student's living expenses while he or she was still enrolled at the school. If the student received financial aid from the SFA programs (except CWS, Byrd, Douglas, or guaranteed loans), a portion of any repayment must be returned to those programs.

Withdrawals from individual classes not affected

These regulations do not affect refunds the school makes to a student who withdraws from some classes, but continues to be enrolled in other classes. The regulations governing refunds and repayments only apply when the student has completely withdrawn from school (including situations where the student drops out or is expelled).

FOUR-PART PROCESS

In this section we will review the procedures that a school must follow when a student withdraws from school. These fall into four distinct activities:

1

Attribute Loan Amounts and Other Aid to Payment Periods, if applicable ...

- If the aid is not clearly disbursed by payment periods, you must "attribute" the aid to the payment periods covered by the period of enrollment.
- If any amount of a Stafford, SLS, or PLUS that was attributed to later payment periods was used to pay for school charges, return that amount to the lender.
- Loan attribution does not apply if the student withdraws from the last payment period in the award year.

2

Calculate the Refund or Repayment ...

- Use the withdrawal or drop out date defined in the SFA regulations.
- Use the school's policy to determine the amount of the refund or repayment (unless school is required to use pro rata refund policy).

3

Calculate SFA Share of the Refund or Repayment ...

- Use the formulas from SFA regulations to find out what portion of the refund or repayment must be returned to the SFA programs.
- Use only amounts awarded for the payment period in the refund and repayment formulas.

4

Allocate SFA Share of Refund/Repayment to Program Accounts and Lender ...

- Use school policy to distribute SFA share back to program accounts and/or lender.
- SFA share of refunds must be returned to program accounts within 30 days of withdrawal date, within 60 days to a lender.

As we review this process, please remember the following points. First, you may be required to return guaranteed loan funds to a lender through the loan attribution process, *even if there is no refund or repayment.* Second, because wages under work-study programs are earned by the student and cannot be recovered, work-study funds are never considered in the refund and repayment process. Third, funds the student receives from the guaranteed student loan programs are not considered in the *repayment* process, because the student is already required to repay them to the lender.

WITHDRAWAL DATE

Withdrawal during payment period

The date used to calculate the student's refund or repayment is the date the student officially notifies the school that he or she is withdrawing from the program. If the student leaves school without giving notice, the school must use the "drop out date." For the SFA programs, the drop out date is the student's last recorded day of attendance, as documented by the school. For instance, if a school discovers that a student did not take final exams for the term and the last documented day of attendance was the date of the midterm examination, the date of the midterm would be used to calculate the refund (if any) due to the student, and any repayment of aid that the student owes to the school. A school may not have a general policy that the school will automatically assume a specific withdrawal date (e.g., the last day of classes) if the student drops out without giving notice.

"No-shows"

If a student withdraws before attending *any* classes at the school, the refund and repayment formulas are not used. The General Provisions and GSL program regulations specify the amount that must be returned to the SFA programs.*

Return of funds to Pell, Perkins, SEOG, ICL, for "no-shows"

If a student officially withdraws, drops out, or is expelled from school before the first day of classes for a payment period, the school must return any Pell Grant, Perkins, or SEOG or ICL funds that it disbursed to the student. Both the amount credited to the student's account and any money that was disbursed directly to the student must be restored by the school to the program account, whether or not the school is able to collect the repayment from the student. This requirement includes any case in which the school cannot document that the student attended at least one class.

Return of funds to GSL lender for "no-shows"

If a student has received loan proceeds from the Stafford or SLS programs but withdraws (officially or unofficially) before attending any classes, the school must determine if the student registered for classes. If the student registered but did not begin attending classes, the school must return to the lender any loan proceeds that were credited to the student's account, *plus* any loan proceeds that were paid directly to the student, but were used by the student to pay school charges. As noted above, it is assumed that the student never began attending if the school cannot document that the student attended at least one class.

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* In most cases, the SFA program regulations give schools the option to pay a student before classes begin, so the student can pay the tuition and fee bill at registration and make living arrangements. However, this option places some responsibility on the school in the event the student never begins attending classes.

ATTRIBUTING GUARANTEED LOANS AND STUDENT PAYMENTS TO A PAYMENT PERIOD

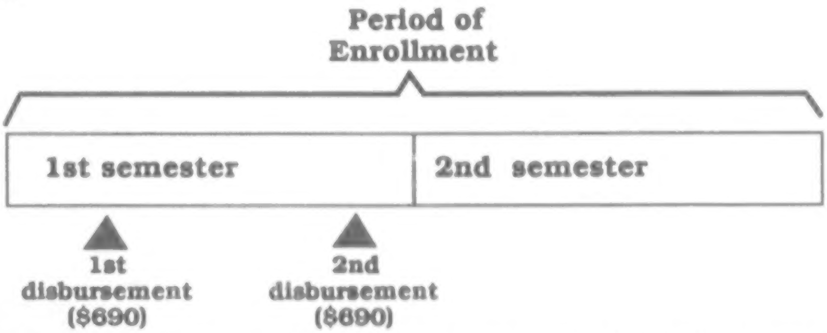
The General Provisions regulations require schools to include only the amount of a guaranteed loan that is attributable to the payment period in which the student withdraws, when figuring the amount of the refund that must be returned to the SFA programs. The regulations also require the school to return to the lender any loan amounts attributable to subsequent payment periods that were used to pay for school charges, *even if no refund or repayment is required under the school's policy.* Thus, attributing the student's guaranteed loan to payment periods is an important preliminary step that precedes any refund and repayment calculation.

Use of amount for payment period consistent with other programs

The attribution of loans to a payment period is consistent with the treatment of other aid in the refund and repayment formulas, which always used amounts awarded for a payment period. Pell Grants and campus-based payments are paid in installments for each payment period, so the school already knows the amount awarded for that payment period. However, guaranteed loans are usually awarded for a period of enrollment, and the release of loan funds does not always coincide with the payment periods for the other programs. The law now requires the lender to divide a Stafford or SLS loan into at least two payments — no one disbursement may exceed 1/2 of the total loan and the second disbursement generally cannot be made until half the loan period has elapsed. If the period of enrollment covered by the loan is two payment periods, this will work out neatly:

EXAMPLE OF LOAN ATTRIBUTION

A $1,500 Stafford Loan is paid in two installments. The period of enrollment is two payment periods. The school has requested that the lender deliver the second disbursement of the loan prior to the start of the second term.

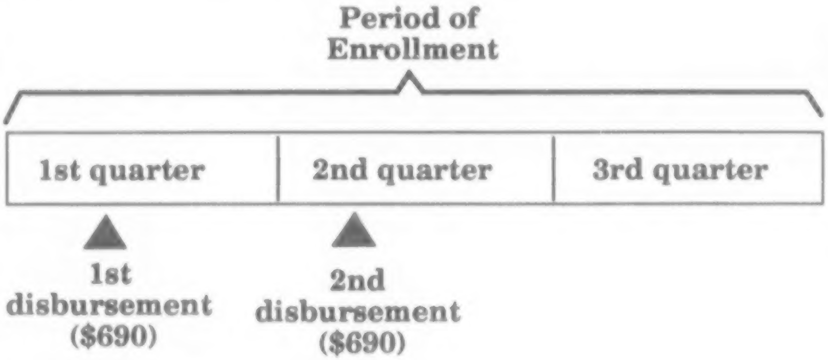


In this case, the first installment is attributed to the first payment period, and the second installment is attributed to the second payment period, even though it was disbursed before the first payment period was over. Thus, $690 is considered to be awarded to the student for each payment period. (Note that we are using the actual amount disbursed from the loan, after the origination fee and an insurance premium have been deducted.)

The previous example could apply to any two payment periods, but the most common case would be a program where two semesters or two clock-hour payment periods add up to one academic year. The same principle applies to a loan made for a period of enrollment that includes three payment periods, such as a program that uses academic quarters: to attribute the loan to payment periods, simply divide the total loan amount (minus the origination fee and the insurance premium) by three.

EXAMPLE — LOAN ATTRIBUTION FOR THREE TERMS

A student attending a community college is awarded a $1,500 Stafford Loan. The loan is paid in two installments, but covers a period of enrollment of three quarters (one academic year at this school).



In this case, $460 of the loan is attributed to each of the three payment periods. (The total disbursement of $1,380 is divided by three.) Again, note that the total disbursement is less than $1,500 because an origination fee and an insurance premium have been deducted from the loan.

(Note that the school in this example has the option to request that the lender make three disbursements, one for each academic term — such an arrangement may be more administratively convenient.)

If the payment periods are of unequal length, the school must attribute the loan amounts in the same proportion as the relative lengths of the payment periods.

Return of GSL funds attributed to later payment period

The General Provisions regulations require the school to return to the lender *any* of the guaranteed loan funds that were attributed to a later payment period if those funds were used to pay for school charges. For instance, in the example above, if the school used the $460 that was attributed to the third quarter to pay school charges for the second and third quarters, but the student then withdraws before beginning the third quarter, the amount used to pay school charges must be returned to the lender. Essentially, the student is not considered to have "earned" the funds for the quarter that was not attended, and the school is responsible for returning those funds that it controls, namely, the amount it has received for school charges.

Determining "unearned" amount to be returned to lender

How do you know that the $460 from the third quarter was used to pay school charges? There are many possible situations in which the student may have received part of the guaranteed student loan as a cash disbursement in an earlier payment period. The simplest way to determine the "unearned" amount of the loan that is considered to have been used for school charges, is to use the following formula:

Loan amount used to pay school charges

— Loan amount attributed to payment period(s) the student attended

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Amount returned to lender

There is one situation in which you need not be concerned with this calculation. If the student withdraws from the last payment period in the period of enrollment, then the student would have "earned" the full amount of the loan and no "unearned" funds would have to be returned to the lender as a result of loan attribution. However, you must still attribute the loan to payment periods for purposes of the refund calculation, and a portion of the refund may have to be returned to the lender.

On the following page, we have provided an example of attribution where GSL funds must be returned to the lender.

EXAMPLE of Loan Attribution

The following example shows a case of loan attribution where funds must be returned to the lender, even though no refund or repayment is required. Although the example concerns a semester school, the basic rule regarding the attribution and return of guaranteed loan funds to the lender is very important for all schools.

Ron S. is enrolled in a two-year undergraduate program at the Newcombe School of Radiation Technology. Newcombe operates on a semester system, with two semesters equalling an academic year. Newcombe certified Ron's application for a $2,625 Stafford Loan, in addition to the Pell Grant he received. The aid was used to pay for the room and board charge (as well as tuition and fees) at Newcombe. Ron withdraws from classes in the last month of his first semester. At the time he withdrew, Ron had received both of the scheduled Stafford Loan disbursements ($1,221 and $1,220, after the origination fee and a two percent insurance premium were deducted). Newcombe used the first $300 of the second Stafford disbursement to pay Ron's remaining room charges for the first semester. The remaining $920 of the second Stafford disbursement was used to credit his account for second semester tuition and fee charges, which had become due at the time the loan check was received.

- The two Stafford disbursements must be attributed to the payment periods contained in the loan period. This is relatively simple, because the loan was divided in half, which corresponds to the two semesters. Thus, $1,221 is attributed to the first payment period, and $1,220 to the second payment period.

- Any amount of a guaranteed loan that was used to credit school charges *that exceeds the amount of the loan attributed to the payment period(s) the student attended* must be returned to the lender. Thus, $1,220 must be returned by the school to the lender that made the Stafford Loan.

$2441	Loan amount used to pay school charges
- 1221	– Loan amount attributed to payment period(s) the student attended
$1220	Amount returned to lender

- Note that if Ron had begun attendance in the second payment period, loan attribution would not apply. (However, a portion of the refund or repayment might have to be returned.)

Additional examples for attributing a guaranteed loan to payment periods are given in the September 1988 Policy Update entitled Refund Distribution Formula for the Title IV Programs (Dear Colleague, GEN-88-32). In particular, note Q&A #10, showing how the loan is attributed for non-term programs that are longer than an academic year or shorter than an academic year. Note that a Stafford or SLS loan that is paid in a single disbursement must also be attributed to payment periods.*

Attributing the student's cash payment

If your school charges the student for more than one payment period at a time, you must attribute any cash payments by the student to those payment periods, in the same way that you would attribute a guaranteed loan. The student's cash payment is divided by the number of payment periods for which the school charged the student.

The sole purpose of this attribution is to exclude from the refund calculation any cash paid by the student for payment periods other than the one in which student left school.** As we will see in the next few pages, only cash and financial aid attributable to the *current payment period* are counted when figuring the paid school charges that must be refunded. The school is not required to return to the student the cash payment that is attributed to other payment periods, unless the money would be returned under the school's refund policy.

Attributing scholarships to payment periods

Similarly, you must exclude any portion of a scholarship that was used to pay for school charges for a later payment period, if the scholarship disbursement covers more than one payment period. If the terms of the scholarship do not clearly indicate that the scholarship was intended for a single semester or other payment period, you must assume that the scholarship was intended for the entire program or academic year.

Uneven costs

A Perkins Loan can be paid in a single disbursement, if a student's award is less than $501 for the academic year. Because that amount is awarded for the entire academic year, it also must be attributed to payment periods. Any amount attributed to a payment period in which the student doesn't attend class, of course, must be returned to the SFA programs. This principle, however, does not extend to attributing award amounts based on uneven costs in the Perkins and SEOG programs. When dealing with uneven costs, the exact amount awarded for each payment period (even if it is uneven) is used for the purposes of the refund and repayment provisions.

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* The law permits the lender to combine the first disbursement with the second disbursement if the first disbursement has not yet been made when the student becomes eligible for the second disbursement.

** The refund formula already assumes that the student's cash contribution is spent before any financial aid to meet the charges for that payment period. Thus, it would be unfair to include in the refund calculation an amount the student paid for subsequent payment periods.

REFUND POLICY

School's refund policy used, unless *pro rata* required

The school's refund policy is used to determine the amount of school charges that are to be returned to a student who withdraws. However, if the school has a default rate over 30 percent, the school is required to use a *pro rata* refund policy (see discussion at the end of this section and Case Study #5).

Fair and equitable policy required

The regulations for the guaranteed loan programs require participating schools to have a fair and equitable refund policy for students who withdraw, drop out, or are expelled.* However, a fair and equitable refund policy (by definition) must be applied to all student aid recipients, not just to recipients of one form of aid. In effect, then, this requirement applies to all the SFA programs at a school that participates in the guaranteed loan programs. The requirements for a fair refund policy in the guaranteed loan program regulations (34 CFR Part 682.606) rely on standards developed by the postsecondary education community. If a State has passed laws affecting a school's refund policy, the school must comply with those laws, provided they do not reduce the amount to be returned to the SFA programs.

Accrediting agency standards; NACUBO standards

To be considered equitable, a refund policy must be consistent with the specific refund standards approved by the school's nationally recognized accrediting agency and approved by the Department. If no such standards exist, the school's policy must conform to the standards established by the National Association of College and University Business Officers (NACUBO), or meet other standards established by the higher education community and approved by the Department of Education. The NACUBO standards are included as Appendix A of the regulations for the Stafford, SLS, and PLUS programs. Appendix A states that the Department considers guidelines VI, VII, and VIII of the NACUBO standards to be acceptable elements of a fair and equitable refund policy.

Note that a school must calculate and return a refund for any student who withdraws after receiving SFA funds (other than CWS, Byrd, or Douglas), even if it has a policy that refunds are only given to students who request them.

Actual refund amount used — unpaid charges not counted

The refund amount used in the formula should be based on the *actual* amount the school would return to the student under its policy. If the student had only paid a portion of the school charges at the time of withdrawal, the unpaid charges are not considered part of the refund. For instance, a school might owe a refund of $2,000 (out of a total tuition and fee charge of $2,500) to the student, based on its written policy. However, if the student only paid $1,800 of the $2,500 tuition and fee charge, the school would actually only return $1,300 to the student. It is the $1,300 that is used in the refund formula. We have worked this example out in more detail below.

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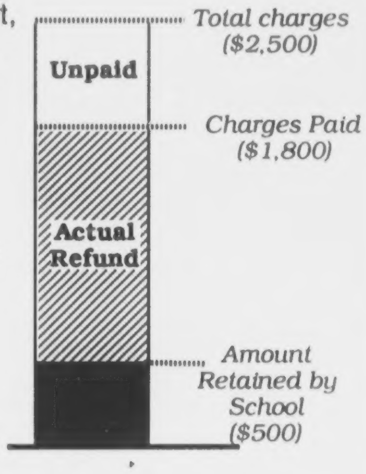
* Note that the Department considers a "fair and equitable" refund for unused equipment to be the full charge for the equipment.

EXAMPLE — UNPAID CHARGES

Pam M. enrolls in a semester program, and is billed for $2,500 in tuition and fees. Pam pays for $1,800 of these charges at the time of enrollment, using a combination of a Pell Grant, State grant, and her own cash. (The school anticipated that Pam would apply for a loan to cover the remaining expenses.) However, the student withdraws after attending the first week of classes. Under the school's refund policy, the school retains 20% of the total tuition and fees charge if the student withdraws in the first two weeks of the semester (.20 x $2,500 = $500).



Thus, the school would only refund Pam the difference between the amount retained and the charges paid — $1,300. The $1,300 represents the amount that would be used in the SFA refund formula.

Definition of a refund

To clarify this point, 34 CFR Part 668.22 defines the refund in terms of the amount that the school will keep under its refund policy. Thus, the refund to the student is the difference between the amount the student paid towards school charges (including only the amounts of financial aid and/or cash payments that are attributable to the payment period), minus the amount the school keeps for the portion of the payment period that the student was enrolled.

§668.22

  Amount Paid by Student
— Amount Retained by School
  Refund Amount

Only count amounts paid with aid/cash for that payment period

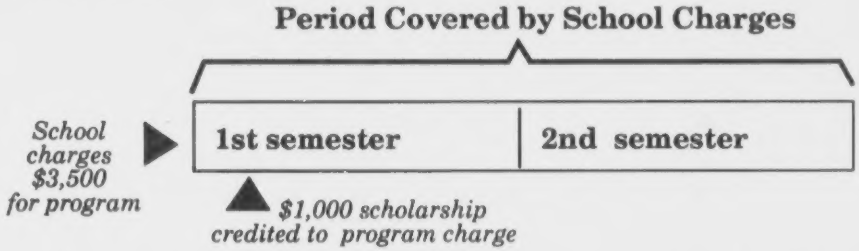
Note that you will always use the actual loan amount attributable to that payment period (after the origination fee and insurance premium have been deducted) for a Stafford or SLS loan, when calculating the amount paid towards school charges. In addition, the amount paid by the student for school charges only includes *financial aid payments or cash payments attributed to the payment period during which the student withdraws.*

Example of charges paid with scholarship

This last point is frequently misunderstood. In some cases, the amount paid for school charges *for the payment period* may be less than the total amount credited towards school charges at the time the student withdraws. To give an example, if the student received an outside scholarship of $1,000 during the first payment period and then withdrew from the school, the school must assume that the scholarship was intended for the full academic year unless the terms of the scholarship make it clear that it was intended entirely as aid for the first payment period. If the scholarship was used to pay the student's charges for that payment period, only the $500 of the scholarship *that is attributable to that payment period* may be considered when counting the charges paid.

EXAMPLE — ATTRIBUTING OTHER AID

Joyce C. enrolls at LaShawn Institute, which defines its academic year as two semesters. During the first semester, she receives a scholarship in the amount of $1,000 from the Sheritta Foundation, which LaShawn Institute credits to her school charges of $3,500.


Period Covered by School Charges
School charges $3,500 for program
1st semester
2nd semester
$1,000 scholarship credited to program charge

If Joyce withdraws from school without making any other payments, the amount of school charges paid is the amount of the scholarship attributed to the first semester: $500. If the school's policy states that it will retain 20% of the school charges ($700) at that point in the semester, then no refund is required for purposes of the SFA programs. (However, the school may be required to refund a portion of the scholarship to the Foundation).

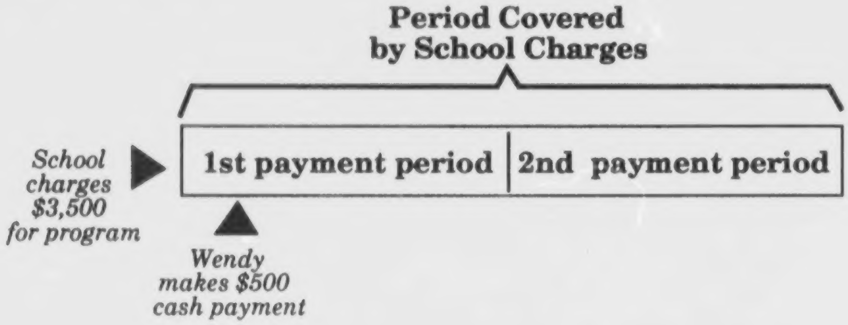
$500 *amount of charges paid*
- $700 *amount retained by school*
0 *refund amount*

Similarly, for a school that charges the student at the beginning of the academic year or period of enrollment, any cash payments the student makes towards school charges must be considered to have been made for the full academic year. Only the amount of the student's payment that is attributable to the payment period in which the student withdrew may be counted when figuring the amount of school charges that were paid at the time of withdrawal.

Example of cash payment for school charges

EXAMPLE — ATTRIBUTING CASH PAYMENTS

Wendy M. enrolls in the first of two 450-hour payment periods at Streets Academy. The program consists of one academic year (900 hours) and the school charges her $3,500 tuition and fees for the full academic year at the time of enrollment. Wendy makes a cash payment of $500 when enrolling, and Streets Academy uses the first disbursement of Wendy's Pell Grant and Stafford Loan to credit her account for the remaining $3,000,



Wendy's cash payment is considered to have been made towards the charges for the full year. If she should drop out in the first payment period, only $250 of the her cash payment would be attributed to that payment period, and only $3,250 of the school charges would be considered to be paid when calculating the refund amount. (Note that this method of calculation is only required for recipients of SFA funds.)

If Wendy withdrew at a point in the program when Streets Academy retains 50% of the tuition and fee charges, under its refund policy, the refund would be determined as follows:

$3,250	*amount of charges paid*
- 1,750	*amount retained by school (50% of total charge)*
1,500	*refund amount*

If your school charges the student by payment period, on the other hand, the student's cash payment would be presumed to be made only for that payment period, and the full amount would be counted in charges paid.

FIGURING THE SFA SHARE OF THE REFUND

If a refund is due to a student under the school's refund policy and the student received any SFA funds (other than College Work-Study or Byrd or Douglas), part of the refund must be returned to the SFA programs involved. The following formula is used to determine what part of the refund must be returned:

$$\text{School refund to student} \times \frac{\text{Total SFA Funds*}}{\text{Total aid*}} = \text{Amount to be returned to SFA programs}$$

* Remember to only use amounts awarded for the payment period, and to exclude CWS funds and any other work program funds.

Use the total SFA funds (except for CWS) that were awarded to the student for the payment period in the above fraction, including aid that was disbursed to the student for living expenses, as well as the amount that was credited to the student's account for school charges.

Use aid awarded for payment period in formula

It's very important to remember that the fractions used in the refund and repayment formulas are based on the *aid awarded for the payment period*. "Aid awarded" is used, rather than the amount actually disbursed, because in the case of non-institutional aid the school may not know the amount received by the student or parent. Note that the gross amount of the loan (including the insurance premium and the origination fee) is included in the amount awarded. The refund and repayment fractions use aid awarded "for the payment period," so that the aid that must be returned to the SFA program accounts will not be affected by amounts received in other payment periods.

A school may make an initial disbursement without a SAR and then receive a SAR indicating a different award amount. Also, a school may award based on one SAR and later change the award based on a second SAR. In such cases, the most recent SAR submitted is the correct SAR on which to base refund and repayment calculations.

Treatment of Byrd, Douglas

State grants are always counted as part of the "Total aid" in the refund and repayment fractions. They are only counted in the numerator (as SFA funds) if the State has made it clear that the grant includes funds from the SSIG program. If the student received a Byrd or Douglas Scholarship, the amount of that scholarship awarded for the payment period would be included in the "Total aid" amount, but not in "Total SFA funds" of the refund and repayment fractions.

To see how the refund formula would be used at a typical school, we will use a hypothetical case.

Figuring the SFA Share of the Refund

Bill S. enrolls in the fall semester at the Swift Recovery Nursing School, and is awarded a $2,000 Pell Grant, a $500 SEOG, a $2,625 Stafford Loan, and a $1,000 scholarship (each is paid in two disbursements, one for each semester). Bill uses $500 of his own money, in addition to financial aid, to pay his charges at the school for the semester. The total school charges are $3,500 for tuition and fees, and room and board.

After two weeks, Bill withdraws from school for personal reasons. The school's policy is to give a 60% refund (retaining 40%) to students who withdraw in the second week of class. What is Bill's refund, and how much of it must be returned to the SFA programs?

Amount retained by school: **40% X $3,500 = $1,400**

Refund Amount:

$3,500 (amount paid by student)
- 1,400 (amount retained by school)
$2,100 (refund)

Aid awarded from SFA programs (for semester):

$1,000 (Pell)
250 (SEOG)
+1,313 (Stafford)
$2,563 (SFA aid)

Total aid for semester:

$2,563 (SFA aid)
+ 500 (scholarship)
$3,063 (total aid)

$$\$2{,}100^{\text{refund}} \times \frac{\$2{,}563^{\text{ SFA aid}}}{\$3{,}063_{\text{ total aid}}} = \$1{,}757 \text{ to SFA programs}$$

DISTRIBUTING THE REFUND TO THE SFA PROGRAMS

School must develop policy

Now that we've determined the amount of the refund that must be returned to the SFA programs, how is that amount distributed among the programs? As with the refund policy itself, the school makes this decision. The school must have a written policy describing how the SFA portion of the refund will be distributed among the SFA programs that were part of the student's aid package. This policy must be consistently applied to all SFA aid recipients. Funds returned to any SFA program may not exceed those received from that program. (However, note that a school may elect to return an amount equal to the full guaranteed student loan to the lender, including the insurance premium and the origination fee — the student is considered to have received the benefit of the full loan amount.)

Examples of distribution policies

As one example of a refund distribution policy, an aid administrator could decide to return an equal amount to each of the SFA programs that were a part of the student's aid package, or prorate the amount based on the size of the initial award. The school could also decide to return the Federal portion of a refund first to the SFA program that was the largest component of SFA aid in a student's financial aid package. If the amount to be returned exceeded the amount awarded from the program, the remaining Federal portion of the refund might then be returned to the SFA program that was the second largest component of the aid package, and so on. Another example of a refund distribution policy might be one in which the Federal portion of the refund would be applied first to reduce any SFA loan principal and then to reduce any SFA grant amounts the student received.

Loan funds returned to lender

Any portion of a refund that the school allocates to the guaranteed loan programs must be returned to the student's lender. When returning a refund to a lender, the school should identify the amount as a *refund*, as opposed to an overaward.

Return of funds to SSIG programs

The school's refund distribution policy may also incorporate any provisions of the school's agreement with the State agency under the State Student Incentive Grant (SSIG) Program. This agreement may require the school to return a specific percentage of the State grant or scholarship to the State agency. If the State grant is funded in part by the Federal SSIG Program, funds returned to the State agency (or to the school's SSIG Program fund, in a decentralized SSIG system) are considered to have been returned to the SFA programs. However, if the State grant is not clearly identified as containing SSIG funds, the school must assume that the grant is not part of the SFA programs, and may not return any portion of the SFA share of the refund to that grant fund. If there is any conflict between the State agency agreement of the school and the Federal refund requirements, the Federal requirements take precedence and must be followed.

Whatever refund distribution policies the financial aid administrator develops must be reasonable and must be published and made available to students at the school. A school must provide a written statement to prospective students before the student enrolls at the school that includes its refund policy and the procedure for a student to request a refund. The guaranteed loan program regulations also require a school to make the policy known to its current students, and notify its students of any changes to the policy.

Written policies required

REPAYMENT OF CASH DISBURSEMENTS

The General Provisions also discuss a different situation — repayments — in which the student who leaves school may be required to repay financial aid that was given directly to the student as a cash disbursement to cover living expenses. Living expenses are a student's education costs above and beyond the amount the school charges to the student for tuition and fees. A student's living expenses include items such as room and board (if the student does not contract with the school), books, supplies, transportation, and child care expenses.

If the student withdraws, drops out, or is expelled, the school must determine whether the student owes a repayment of a portion of the cash disbursement. If the school finds that the student's living expenses incurred up to the time of withdrawal exceed the amount of cash disbursed, the student has not been overpaid. However, if the cash disbursement was greater than the student's living expenses up to the withdrawal date, the student must repay the excess amount.

Repayment if cash disbursed exceeds expenses

In determining the amount of the repayment to be returned to the SFA programs that were part of the student's aid package, the aid administrator uses the following formula:

$$\text{Student's repayment to school} \times \frac{\text{Total SFA Funds*}}{\text{Total aid*}} = \text{Amount to be returned to SFA programs}$$

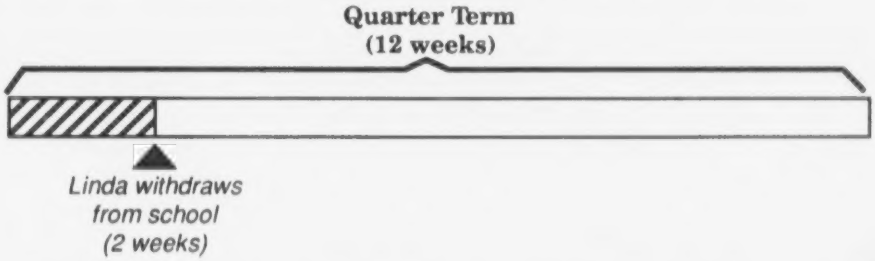
* Remember to use only amounts awarded for the payment period, and to exclude Stafford, SLS, and PLUS, as well as CWS and any other work program funds.

Remember that the SFA funds used in the fraction are based on the aid *awarded for the payment period.* As in the case of refunds, CWS wages are excluded because they have been earned by the student. In addition, all guaranteed loan funds are excluded from the repayment formula because the student is already obligated to repay these loans to the lender. This means that a school has to have a way of knowing which program funds were used to credit the student's account and which funds were paid to the student for living expenses. The guaranteed loan funds may not be counted in figuring the amount of the overpayment, as shown in the next example.

Figuring the SFA Share of the Repayment

Linda P. enrolls in a secretarial program at a community college that uses academic quarters. For the quarter, she receives $500 from her Pell Grant, $500 attributed to that quarter from her Stafford Loan disbursement, and a $500 State grant payment (not SSIG). The tuition and fee bill for the quarter is $300, which is paid by the Pell Grant. The remaining $1,200 of aid is disbursed directly to Linda for living expenses.

However, Linda withdraws from school two weeks after the quarter begins.



The $500 Linda received from the Stafford loan is not considered in the repayment calculation, leaving a cash disbursement of $700 from the Pell Grant and the State grant. The aid administrator at the school determines that Linda incurred approximately $400 in living expenses before leaving school (apartment rental plus food and miscellaneous expenses). Therefore, Linda owes a repayment of $300 (the $700 cash disbursement minus the $400 living expenses.)

$$\begin{array}{r} \$\,700 \\ -\ 400 \\ \hline 300 \end{array}$$

How much of this repayment must be returned to the SFA programs?

Aid from SFA Programs: (for academic quarter) $500 (Pell)

Total aid for quarter: $1,000
($500 Pell + $500 State aid)

Repayment formula:

$$\$300^{\text{repayment}} \times \frac{\$500^{\text{SFA aid}}}{\$1{,}000^{\text{total aid}}} = \$150^{\text{to SFA}}_{\text{programs}}$$

As was the case with figuring the amounts paid by financial aid toward school charges (to find the refund amount), notice that the *actual amount* of Stafford or SLS that the school used to credit the account or to pay the student is used when figuring if the cash payment includes any funds from those programs.

Distribution of repayment to SFA programs

As with refunds, a school must develop its own written policies to determine how the Federal portion of the repayment will be distributed to the SFA programs that were part of the student's aid package.

Collection of repayment

The school is responsible for notifying the student of the amount owed, for billing the student, and for collecting the overpayment. However, unlike the situation with refunds, a school is not liable for the amount of the repayment if it is unable to collect the repayment from a student. The student is ineligible for further SFA funds, and must be reported as being in overpayment status on the financial aid transcript.

Referring overpayment cases to the Department

A student who fails to repay as owed can be referred to the Department for collection, unless the overpayment is less than $100.00 or is the result of school error. ED will refer the account to its collection agent, and the student's record will be placed in a subsystem "hold file" of the Central Processing System (CPS). Until the overpayment is resolved, the CPS will reject any future Federal student aid applications filed by that student and the student will continue to be ineligible for Federal student aid. See *The Verification Guide, 1992-93* for information on referring overpayment cases to the Department.

TIMEFRAME FOR RETURN OF FEDERAL FUNDS

Return of Pell, SEOG, ICL, and Perkins funds

Program regulations specify the maximum timeframe for the school to return the SFA portion of a refund to the program accounts. For the Pell Grant, SEOG, ICL, and Perkins programs, a school must return the Federal portion within 30 days (including weekends and holidays) of the date the student officially withdraws or the date the school discovers that the student has unofficially withdrawn.

Return of GSL funds to lender

If the student received a guaranteed student loan, you must calculate the refund due to a student and return to the lender any portion of the refund allocated to the loan programs within 60 days of the earliest of the following dates:

- The date that the student notifies the school of his or her withdrawal or the date of withdrawal specified by the student, whichever is later.
- The date on which the school makes its determination that the student has withdrawn.
- The expiration of the semester, trimester, or quarter in which the student withdrew, as determined by the school.
- The expiration of the period of enrollment for which the loan was made.

The withdrawal date only affects the return of *refunds* to the lender. Repayments must be returned within 30 days of the date the student makes the repayment.

LEAVES OF ABSENCE; WITHDRAWALS FROM CORRESPONDENCE SCHOOL

Leaves of absence

In some cases, a student may arrange to leave school temporarily, with the intention of resuming the program at a later date. The regulations for the guaranteed loan programs do allow for a leave of absence for the student, under the following conditions:

- The student must request the leave of absence in writing.
- The school may not charge the student for the leave of absence.
- The leave of absence is limited to 60 days in general, or six months for a student at a non-correspondence school whose next "start" date is more than 60 days after the leave of absence begins, or six months for a student who provides the school with a written recommendation from a physician for a leave of absence of more than 60 days based on a medical condition.
- No more than one leave of absence may be granted for the same student in any 12-month period.

If the student fails to return from the leave of absence, the student is considered to have withdrawn from school as of the first day of the leave of absence. A school has 30 days after the last day of an approved leave of absence to calculate a refund and return funds to the lender.

Correspondence programs

The regulations for the guaranteed loan programs also establish rules for determining when a student has dropped out of a correspondence program. For a correspondence program, a student is usually considered to have withdrawn if the student fails to submit a lesson plan within 60 days after a lesson is due (using the schedule for lessons established by the school). However, the school may restore the student to in-school standing once, if, within the 60-day period, the student writes the school requesting to continue in the program, with the understanding that future lessons will be submitted on time.

EFFECT OF LATE DISBURSEMENT AND CREDIT BALANCE ON REFUND/REPAYMENT

The program regulations address several disbursement procedures for withdrawals that are sometimes confused with the calculation of a refund or repayment to the SFA programs.

Late disbursements

Both the Pell Grant and GSL regulations permit a "late disbursement" to be made to a student who has withdrawn from school or otherwise lost eligibility. In the case of a Pell Grant, a student who submitted a valid SAR before losing eligibility may be paid for his or her education expenses incurred up to the date the student lost eligibility. Some guarantee agencies have established late disbursement policies for students who have applied for GSLs but who withdraw before the loans are disbursed. Usually, the school must request that the lender obtain approval from the guarantee agency for a late disbursement to cover the student's education expenses incurred up to the date the student lost eligibility.

Usually, there will be no refund or repayment in a late disbursement situation. When figuring the amount of the late disbursement for Pell Grants, the school must take into account the student's remaining school charges and the student's other education expenses while enrolled and eligible. For GSLs, many guarantee agencies limit the late disbursement to the student's outstanding school charges. In either case, the late disbursement cannot create a refund of school charges to the student, or the need for the student to repay funds.

There is one circumstance in which both a refund and a late disbursement could take place. The student's charges at the school could have been fully paid by aid, although the student still has not received all of his or her aid payments for living expenses. In this case, the school must calculate the amount of school charges to be refunded to the student, while making a separate late disbursement from the remaining aid for the student's living expenses while he or she was enrolled and eligible.

Late Pell disbursement must be paid to student

Please remember that if you make a late disbursement from Pell Grant funds, it must be credited to the student's account for school charges or paid directly to the student for living expenses. A late disbursement of Pell Grant funds may not be used to reduce the student's repayment obligation on a GSL or other loan. (Also note that the Pell late disbursement may not be credited to the student's account if the school charges have already been satisfied by other forms of aid. The student is not considered to have outstanding school charges in this situation, so a late Pell disbursement could only be made for living expenses incurred up to the time of withdrawal.)

Pell credit balance

In some cases, the student may have a credit balance on his or her account at the time of withdrawal. (Note that a school must promptly disburse GSL funds to students for living expenses unless it has on file a written authorization from the student to withhold funds for budgeting purposes.) If the credit balance consists of Pell Grant funds, those funds may be paid to the student for education expenses incurred before the student withdraws. Any Pell Grant funds not paid to the student must be returned to the Pell Grant Program. Pell Grant funds may not be sent to the lender to reduce the student's loan obligation.

GSL credit balance

If the student has a credit balance consisting of GSL funds (because the student requested in writing that the school retain the funds for budgeting purposes), the student is considered to have no further education expenses. If this is the case, the GSL credit balance must be returned to the lender.

Loan payoff by school

When the student has withdrawn very early in the course of study, the amount of the outstanding loan after the refund has been sent to the lender may be minimal. In these cases, some schools have chosen to pay the outstanding balance of the loan out of their own funds, to eliminate the possibility of a default over a relatively small loan obligation. If the entire amount of a GSL is repaid within 120 days of disbursement, the origination fee and the insurance premium on the loan are cancelled. Thus, the loan is entirely paid off.

This practice is acceptable, provided that the school returns the entire remaining amount of the loan disbursement to the lender **within 120 days**. (Note that the GSL regulations prohibit schools from making loan payments on behalf of students. However, in this case, the entire amount of the loan is being returned, effectively cancelling the loan and eliminating the possibility of later default.) To ensure that all students are treated equitably, the school must specify in its refund policy the conditions under which it will make such a refund to the lender.

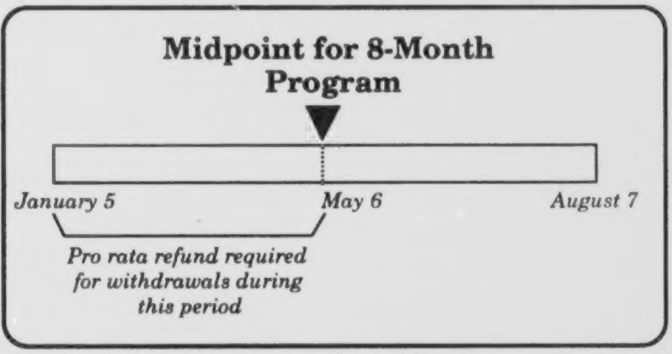
Pro Rata Refund Procedures

When must a school adopt a pro rata refund policy?

A school is required to use a "pro rata" refund policy, rather than its own refund policy, if the school's default rate exceeds 30%. If your school's fiscal year default rate is greater than 30%, you must begin using a *pro rata* refund policy upon notification of that default rate from the Department, and you must continue using *pro rata* calculations until you are notified by the Department that your default rate is 30% or less.

When must a school using a pro rata refund policy give a student a pro rata refund?

For programs scheduled to last 12 months or less, a school must give a *pro rata* refund to a student who receives a **guaranteed student loan** but withdraws before the halfway point of the program. The withdrawal date is defined as the last recorded day that the student attended the school. The halfway point is measured in calendar time, based on the scheduled length of the program. For instance, if a 900 clock hour program is scheduled to last 8 months, the midpoint of the program would come 4 months after the program begins. A student whose last recorded day of attendance was in the fifth month of the program would not be entitled to a *pro rata* refund, regardless of the hours the student had actually attended.


Midpoint for 8-Month Program
January 5
May 6
August 7
Pro rata refund required for withdrawals during this period

If the program is longer than 12 months, *pro rata* refunds are only required for guaranteed student loan recipients who withdraw *in the first 6 months of the program.* Thus, students who are enrolled in a two-year associate's degree program or a 4-year baccalaureate program are only entitled to a *pro rata* refund if they withdraw within the first six months of their first year in the program. A student who withdraws after the *pro rata* refund period is subject to the school's normal refund policy. For instance, if a student attending a community college withdraws in the third quarter (seven months into the program) he or she would not be entitled to a *pro rata* refund, but would receive a refund calculated under the school's established refund policy.

Pro Rata Refund

How is the pro rata refund calculated?

Under a *pro rata* refund policy, a school is only entitled to retain the amount of school charges (tuition, fees, room, board, etc.) that is proportional to the portion of the enrollment period that was completed by the student.* If the school charges a student directly for books and supplies (either on a term-by-term basis or as a one-time program charge) and requires the student to buy the books and supplies at the school's book store, those charges are included in the *pro rata* calculation.

First, the school must calculate the percentage of the period of enrollment that the student completed, based on the following units of measure.

Credit hours— total weeks the student attended in the period of enrollment

Clock hour programs — hours the student completed during the period of enrollment for which tuition and fees were charged. (Excused absences under the school's written policy may be included in the hours the student completed.)

Correspondence programs — total number of lessons completed in the period of enrollment.

If the program charges by academic term, then the period of enrollment used for the *pro rata* calculation is the academic term. For instance, if a student completes the fall quarter at a community college, but withdraws after attending two weeks in the Winter quarter, the *pro rata* refund would be based on the two weeks the student attended out of the total weeks in that quarter.

The percentage of weeks attended is rounded up to the nearest 10%. This percentage is then multiplied by the school charges for the enrollment period.

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* The refund examples show the amount retained by the school, while the regulations define the amount refunded to the student — both approaches yield the same result. We use the "amount retained by the school" for consistency with the rest of the refund calculation.

EXAMPLE — PRO RATA REFUND CALCULATION

Linda B. enrolls in an Associate's Degree program at Threlkeld Junior College on January 15, 1991. However, after four weeks of study, she decides to move to Seattle to get married (the quarter term was scheduled to last a total of 12 weeks). Threlkeld JC charges tuition and fees at the beginning of each quarter, so the period of enrollment covered by the pro rata calculation is the quarter. The tuition and fees for the quarter was $625.

To find the percentage of the program that Linda completed, divide the weeks that she completed by the total weeks in the program. (If the school uses clock hours to measure progress, the clock hours the student completed would be used instead of weeks.)

$$\frac{4 \text{ weeks completed}}{12 \text{ Total weeks}} = 33\%$$

Remember that the percentage of hours completed is rounded up to the nearest 10%. Therefore, Threlkeld JC retains **40%** of the total school charges.

40% x $625 = $250 retained

Linda's refund is the difference between the total school charges and the amount retained.

$625 - $250 = $375 refund

(If Linda received SFA funds, the school must determine the amount of the refund to be returned to those programs.)

Is the amount of the pro rata refund reduced by unpaid school charges or the school's withdrawal fee?

You may add the following items to the amount to be retained by the school:

- A reasonable administrative fee. (Not to exceed $100, or 5% of the total charges for tuition/fees/room/board, whichever is less.)
- The documented cost to the school of any equipment that was issued to the student, but was not returned by the student.

If you follow the steps given on the worksheet for *Case Study #5* at the end of this section, unpaid charges will also be removed from the amount of the refund.

In the case of equipment that is issued to the student, the school must be sure to notify the student of the requirement to return the equipment. The school must notify the student in writing, before enrollment, that the student will be required to return the equipment in the event the student withdraws. The school must request the return of the equipment in writing within 10 days of the student's last day of attendance, and must allow the student 10 days after receiving the request to return the equipment.

Must the school use the pro rata policy if the student would get a larger refund under the school's refund policy?

If the school's policy would result in a larger refund to the student, the school must use that policy instead of the *pro rata* refund policy when calculating the refund.

How does the attribution of student payments work with pro rata refunds?

It doesn't. When calculating pro rata refunds, you cannot attribute the student's aid or cash payments to the payment period.

Refund and Repayment

Case Studies

The following pages contain case studies showing refund and repayment situations at four different schools:

1) a community college using quarter terms,
2) a traditional four-year school using semester terms,
3) a proprietary school program one academic year in length,
4) a proprietary school program greater than an academic year, and
5) a school required to use a pro rata refund policy.

However, the principles shown in each of the case studies are relevant to all schools participating in the SFA programs.

CASE 1 —
DOMINO COMMUNITY COLLEGE

- *Loan attribution to quarter terms*
- *Return of loan funds attributed to later payment period*

Domino is a 2-year community college operating on a quarter term system. It does not participate in the campus-based programs, but its students are eligible for Pell Grants, guaranteed loans, and State grants, including SSIG-funded grants. Domino is a commuter school, with no campus dormitories.

REFUND POLICY

Tuition and fees:

If student withdraws:	*The school retains:*
Before classes	0%
First Week	10%
Second & Third Week	30%
Fourth Week	50%
After Fourth Week	100%

REPAYMENT POLICY

For students who begin classes, 50% of the books and supplies allowances is considered to be expended (taking into account the bookstore's return policy).

Other living expenses are prorated based on the remaining weeks in the term. (A quarter term lasts 11 weeks).

DISTRIBUTION POLICY

1. Stafford
2. SLS
3. PLUS
4. Pell
5. State Tuition Grant (SSIG-funded)

STUDENT INFORMATION

Jeff A. is enrolled at Domino Community College for the Winter quarter. (He has already completed the Fall quarter.) He lives with his parents, who live near the school. He withdraws from class during the second week of the term.

Costs for the quarter* • • • • • • • • •

Tuition and fees	**$425**
Books & Supplies	**$150**
Room & Board	**$900**
Transportation	**$100**
Personal	**$300**

Aid awarded • • • • • • • • • • • • • • • • • • •

Jeff was awarded a $2,100 Pell Grant and a $1,200 Stafford loan (the loan period is for the Fall, Winter, and Spring quarters).

Aid disbursed • • • • • • • • • • • • • • • • • • •

Jeff received disbursements at the beginning of the Winter quarter in the following order: a second disbursement ($558) of the Stafford loan and a $700 Pell Grant disbursement. (The first disbursement of the Stafford loan was disbursed to him for living expenses during the Fall quarter.)

The second disbursement of the Stafford loan was used to pay the tuition and fee bill ($425). The remainder of the Stafford disbursement ($133) and the $700 Pell Grant were disbursed directly to Jeff for living expenses (total $833).

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* Note that the living expenses that may be used to calculate Pell awards are limited by law. However, the student's actual costs may be used when figuring the costs incurred by the student before dropping out.

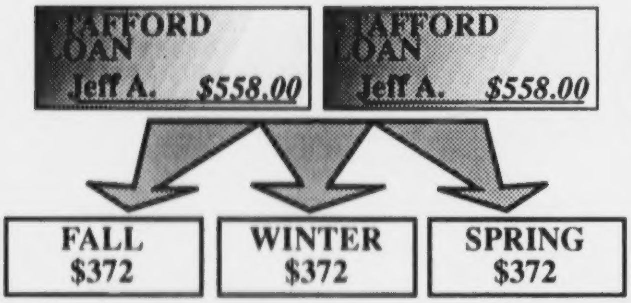
Principles shown:

1) Attribution of Stafford to more than two payment periods

2) Return of Stafford funds used to pay school charges in excess of amount attributed to payment period(s) the student is enrolled

3) "Payments for school charges" only includes Stafford funds attributed to the payment period

- The two Stafford Loan disbursements are attributed to the three payment periods contained in the period of enrollment as follows (we show amounts disbursed for this purpose, after a 5% origination fee and a 2% insurance premium have been deducted — Step 2 in the refund and repayment formulas will use the amount *awarded* for the payment period, which is $400):



- To find the amount of the loan that must be returned to the lender, use the following procedure:

425	Loan amount used to pay school charges
-744	– Loan amount attributed to payment period(s) the student attended
0	Amount returned to lender

Thus, the amount of Stafford Loan funds credited towards school charges is less than the amount attributable to the two payment periods attended by the student. There is no "unearned" loan amount to be returned to the lender.

- Note that if any portion of the Stafford loan had also been credited to tuition and fee charges for the Fall, the above calculation would also have to include that amount. For instance, if $375 of the Fall Quarter charges had also been paid by a Stafford Loan disbursement (as well as the $425 charge for Winter quarter), the calculation would look like this:

800	Loan amount used to pay school charges
-744	– Loan amount attributed to payment period(s) the student attended
56	Amount returned to lender

- In Step 3 of the refund example, note that the student's charges for the Winter quarter were paid by Stafford Loan funds. Only the $372 of the loan that is attributable to the Winter quarter is shown for "Payments credited to school charges."

- The $244 refund is returned to the lender who made the Stafford Loan. The repayment amount is returned to the Pell Grant program.

CAUTION: Always attribute the amount of a Stafford, SLS, or PLUS loan to payment periods. Any loan funds used to pay school charges in excess of the amount attributed to the payment period(s) the student attended must be returned to the lender.

	Stafford		SLS or PLUS		
	425		n/a		Loan amount used to pay school charges
−	744	−		−	Loan amount attributed to payment period(s) the student attended
	0				Amount returned to lender

REFUND EXAMPLE

STEP 1 Amount Retained by School (based on refund policy)

	Charges		Amount Retained
Tuition/ Fees	425	X	30% = 128

Total Retained 128

STEP 2 Aid Awarded for Payment Period

Pell	700
SSIG	
Stafford	400
SLS/PLUS	
A. Total SFA Funds	1100
B. School & Other Aid	0
C. Total Aid (add A and B)	1100

STEP 3 Payments (for payment period) Credited to School Charges

Pell	
SSIG	
Stafford	372
SLS/PLUS	
Cash Payment by Student	
School & Other Aid	
Total Paid Charges	372

STEP 4 Refund to Student

Total Paid Charges (from Step 3)	372
Total Retained (from Step 1)	128
Refund	244

STEP 5 Amount to be Returned to SFA Programs

$$\textbf{Refund (from Step 4)} \times \frac{\textbf{SFA Funds Awarded (from Step 2A)}}{\textbf{Total Aid Awarded (from Step 2C)}} = \textbf{Amount to SFA Programs}$$

$$\boxed{244} \times \frac{\boxed{1100}}{\boxed{1100}} = \boxed{244}$$

REPAYMENT EXAMPLE

STEP 1 Living Expenses Incurred

	Living Expenses for Payment Period	Living Expenses Actually Incurred
Room/Board	900	x 2/11 = 164
Books/Supplies	150	x 1/2 = 75
Transportation	100	x 2/11 = 18
Dependent Care		
Personal	300	x 2/11 = 55
Total Incurred		312

STEP 2 Aid Awarded for Payment Period

Pell 700

SSIG

A. Total SFA Funds 700

B. School & Other Aid 0

C. Total Aid 700
(add A and B)

STEP 3 Payments (for payment period) to Student for Living Expenses

Pell

SSIG

School & Other Aid

Total Cash Disbursed

STEP 4 Repayment Amount

Total Cash Disbursed (from Step 3) 700

Total Incurred (from Step 1) 312

Repayment 388

STEP 5 Amount to be Returned to SFA Programs

$$\textbf{Repayment}\ \text{(from Step 4)} \times \frac{\textbf{SFA Funds Awarded}\ \text{(from Step 2A)}}{\textbf{Total Aid Awarded}\ \text{(from Step 2C)}} = \textbf{Amount to SFA Programs}$$

$$\boxed{388} \times \frac{\boxed{700}}{\boxed{700}} = \boxed{388}$$

DISTRIBUTION TO SFA PROGRAMS

Refund 244

Stafford 244

SLS

PLUS

Pell

SSIG

Repayment 388

Pell 388

SSIG

CASE 2 —
OTHELLO STATE UNIVERSITY

- *Loan attribution at semester school*
- *Treatment of scholarship*
- *Guaranteed loan excluded from repayment*

Othello State University is a four-year residential school that operates on a semester term system. The University participates in all of the campus-based programs, as well as the Pell Grant and guaranteed loan programs.

REFUND POLICY

Tuition and fees are refunded according to the following schedule:

If student withdraws:	*The school retains*
Before classes	0%
First Week	10%
Second Week	30%
Third Week	50%
Fourth Week	75%
After Fourth Week	100%

The school refunds housing charges based on any complete months that are not used, less a $50 deposit. (The demand for housing at the school exceeds the available dorm space, so the school has no difficulty filling rooms.)

Board is refunded on a pro rata basis, using the number of remaining weeks divided by the 16-week term.

REPAYMENT POLICY

For students who begin classes, 50% of the books and supplies allowances is considered to be expended (taking into account the bookstore's return policy).

Other living expenses are prorated based on the remaining weeks in the term.

DISTRIBUTION POLICY

Othello State's policy is to return the SFA portion of the refund and repayment to the programs in the following order.

1. Perkins
2. SEOG
3. Stafford
4. SLS
5. PLUS
6. Pell
7. SSIG

STUDENT INFORMATION

Carney M. enrolls at Othello State University for the Fall term, in a program to prepare her for the study of Veterinary Medicine. She withdraws from class during the second week of the term.

Costs for term* • • • • • • • • • • • • • • • •

Tuition and fees	**$2,000**
Room (from school)	**$900**
Board (from school)	**$750**
Books & Supplies	**$300**
Transportation	**$250**
Personal	**$250**

Aid awarded and disbursed • • • • • • • •

Carney was awarded a $2,000 Pell Grant, a $1,200 SEOG and a $2,625 Stafford loan. She also received a $2,000 scholarship from the Feline Fancier's Club.

Carney received disbursements for the payment period in the following order: A $1,000 Pell Grant payment and a $600 SEOG were credited to her account in the week before classes began. The $2,000 scholarship from the Feline Fancier's Club was then credited to her account, in one lump sum. She was also awarded a $2,625 Stafford Loan, to be paid in two installments. The first disbursement of the Stafford ($1,221) was paid when Carney registered for classes ($50 was credited to tuition and fees, and the remainder was paid as cash).

NOTES

Principles shown:
1) Attribution of Stafford
2) Full amount of scholarship is included in "Payments Credited to School Charges"
3). Stafford Loan excluded from repayment

- The Stafford disbursement is attributed to the first semester. (If a second Stafford disbursement had been made, any amount of that disbursement that was used to pay school charges would have to be returned to the lender.)

- The full amount of the Feline Fancier's Club scholarship ($2,000) is also attributed to the semester. (If thescholarship had been awarded for the full academic year, the $2,000 would have to be attributed to the two semesters, as with other aid.)

- Carney's total school charges ($3,650) were paid by financial aid. She received a cash disbursement of $1,171.

- The cash disbursement consisted entirely of Stafford Loan funds — so no repayment is expected. Carney must repay the loan monies to the lender, according to the terms of the promissory note.

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* Note that the living expenses that may be used to calculate Pell awards are limited by law. However, the student's actual costs may be used when figuring the costs incurred by the student before dropping out.

CAUTION: Always attribute the amount of a Stafford, SLS, or PLUS loan to payment periods. Any loan funds used to pay school charges in excess of the amount attributed to the payment period(s) the student attended must be returned to the lender.

	Stafford	SLS or PLUS	
	50	n/a	Loan amount used to pay school charges
−	1,221	−	− Loan amount attributed to payment period(s) the student attended
	0		Amount returned to lender

REFUND EXAMPLE

STEP 1 Amount Retained by School (based on refund policy)

	Charges	Amount Retained
Tuition/ Fees	2,000	X 30% = 600
Room	900	X 1/4 = 225+50=275
Board	750	X 2/16 = 94

Total Retained 969

STEP 2 Aid Awarded for Payment Period

Pell	1,000
Perkins	
SEOG	600
SSIG	
Stafford	1,313
SLS/PLUS	
A. Total SFA Funds	2,913
B. School & Other Aid	2,000
C. Total Aid (add A and B)	4,913

STEP 3 Payments (for payment period) Credited to School Charges

Pell	1,000
Perkins	
SEOG	600
SSIG	
Stafford	50
SLS/PLUS	
Cash Payment by Student	
School & Other Aid	2,000
Total Paid Charges	3,650

STEP 4 Refund to Student

Total Paid Charges (from Step 3)	3,650
Total Retained (from Step 1)	969
Refund	2,681

STEP 5 Amount to be Returned to SFA Programs

$$\textbf{Refund}\ \text{(from Step 4)} \times \frac{\textbf{SFA Funds Awarded}\ \text{(from Step 2A)}}{\textbf{Total Aid Awarded}\ \text{(from Step 2C)}} = \textbf{Amount to SFA Programs}$$

$$\boxed{2,681} \times \frac{\boxed{2,913}}{\boxed{2,913}} = \boxed{1,590}$$

REPAYMENT EXAMPLE

STEP 1 Living Expenses Incurred

	Living Expenses for Payment Period	Living Expenses Actually Incurred
Room/Board		
Books/Supplies		
Transportation		
Dependent Care		
Personal		

STOP

No calculation necessary.
(No cash other than Stafford disbursed to student.)

STEP 2 Aid Awarded for Payment Period

Pell ______
SSIG ______
Perkins ______
SEOG ______
A.Total SFA Funds ______
B. School & Other Aid ______
C. Total Aid ______
(add A and B)

STEP 3 nt period) ving Expenses

______
IG ______
Perkins ______
SEOG ______
School & Other Aid ______
Total Cash Disbursed ______

STEP 4 Repayment Amount

Total Cash Disbursed ______
(from Step 3)
Total Incurred ______
(from Step 1)
Repayment ______

STEP 5 Amount to be Returned to SFA Programs

Repayment (from Step 4) **X** **SFA Funds Awarded** (from Step 2A) / **Total Aid Awarded** (from Step 2C) **=** **Amount to SFA Programs**

☐ X ☐ / ☐ = ☐

DISTRIBUTION TO SFA PROGRAMS

Refund 1,590
Perkins ______
SEOG 600
Stafford 990
SLS ______
PLUS ______
Pell ______
SSIG ______

Repayment ______
Perkins ______
SEOG ______
Pell ______
SSIG ______

CASE 3—
FIBONACCI TECHNICAL INSTITUTE

- *Loan attribution for programs without terms*
- *Program length is one academic year*
- *Treatment of cash payment for charges*

The Institute offers programs lasting 1200 and 900 clock-hours in the fields of electronics and computers. It does not participate in the campus-based programs, but its students are eligible for State grants (SSIG-funded). The Institute charges tuition and fees for the whole program at the time of enrollment.

REFUND POLICY

The Institute uses the refund policy recommended by its State agency:

If the student withdraws after completing:	*The school retains:*
Less than 10%.	10%
10-20%.	20%
20-30%	40%
30-40%	60%
40-50%	80%
More than 50%.	100%

The school also retains an administrative fee of $100.

REPAYMENT POLICY

Other living expenses are prorated based on the weeks the student was enrolled. The 900-hour programs at the school are scheduled to run for 28 weeks.

DISTRIBUTION POLICY

The Institute's policy is to return the SFA portion of the refund and repayment to the programs in the following order.

1. Stafford
2. SLS
3. PLUS
4. Pell
5. SSIG

PAYMENT PERIODS

The 900-hour program is divided into two payment periods of 450 hours each. The 1,200-hour program is divided into three payment periods: 450 hours, 450 hours, and 300 hours.

The school defines an academic year as 900 clock hours for both programs.

STUDENT INFORMATION

John D. enrolls at Fibonacci Technical Institute in March, in a 900-hour program for computer programmers. (He lives in an apartment near the school.) He withdraws from the program after attending two weeks (55 hours of class).

Costs for the Program ••••••••

Tuition and fees	**$3,600**
Books & Supplies	**$300**
Living Expenses* (Room, Board, Transportation, Personal Expenses)	**$5,300**

Aid awarded and disbursed •••••••

John was awarded a $2,300 Pell Grant. He applied for a $2,625 Stafford Loan and a $4,000 SLS loan and was approved for both.

John made an initial cash payment of $200 when he signed the enrollment contract and received financial aid payments for the payment period in the following order:

$ 200	**Student's Cash**
$1,150	**Pell Grant**
$1,221	**Stafford Loan**
$1,860	**SLS**
$4,431	**TOTAL**

These payments were used to credit John's tuition and fee charge ($3,600), and the $300 books and supplies charge. The school gave John a check for the remaining $531.

NOTES

Principles shown:
1) Attribution of Stafford and SLS
2) Attribution of student's cash payment when tuition and fees are charged for the entire program
3) "Payments credited to school charges" only includes amount of student's cash payment that is attributed to the payment period
4) If the cash disbursement is from a guaranteed student loan, no repayment is calculated

- The first disbursements of the Stafford ($1,221) and SLS ($1,860) loans are attributed to the first payment period. Thus, no refund to the lender is required. (If John had received second disbursements of the Stafford and SLS loans, those disbursements would have been attributed to the second payment period, and any amount of the second disbursements used to credit school charges would have had to be returned to the respective lenders.)

- John withdrew within the first 10% of the program (55 hours is roughly 6% of a 900-hour program). FTI is entitled to keep 10% of its charges.

- Half of John's cash payment ($100) is attributable to the second payment period. Therefore, only $3,500 of the school charges are treated as paid in the refund calculation.

- Although John's cash disbursement exceeded his estimated costs for the first two weeks of the program, no repayment is calculated, because the cash disbursement came from guaranteed loan funds.

---

* Note that the living expenses used to calculate Pell awards are limited by law. However, the student's actual costs may be used when figuring the costs incurred by the student before dropping out.

CAUTION: Always attribute the amount of a Stafford, SLS, or PLUS loan to payment periods. Any loan funds used to pay school charges in excess of the amount attributed to the payment period(s) the student attended must be returned to the lender.

	Stafford	SLS or PLUS	
	1,221	1,860	Loan amount used to pay school charges
−	1,221	1,860	− Loan amount attributed to payment period(s) the student attended
	0	0	Amount returned to lender

REFUND EXAMPLE

STEP 1 Amount Retained by School (based on refund policy)

	Charges		%Retained	Amount Retained
Tuition/ Fees	3,600	x	.10	$360
			Administrative Fee	+ 100
			Total Retained	$460

STEP 2 Aid Awarded for Payment Period

Pell	1,150
SSIG	
Stafford	1,313
SLS/PLUS	2,000
A. Total SFA Funds	4,463
B. School & Other Aid	0
C. Total Aid (add A and B)	4,463

STEP 3 Payments (for payment period) Credited to School Charges

Pell	1,150
SSIG	
Stafford	1,221
SLS/PLUS	1,029
Cash Payment by Student	100
School & Other Aid	0
Total Paid Charges	3,500

STEP 4 Refund to Student

Total Paid Charges (from Step 3)	3,500
Total Retained (from Step 1)	460
Refund	3,040

STEP 5 Amount to be Returned to SFA Programs

$$\textbf{Refund} \text{ (from Step 4)} \times \frac{\textbf{SFA Funds Awarded} \text{ (from Step 2A)}}{\textbf{Total Aid Awarded} \text{ (from Step 2C)}} = \textbf{Amount to SFA Programs}$$

$$\boxed{3{,}040} \times \frac{\boxed{4{,}463}}{\boxed{4{,}463}} = \boxed{3{,}040}$$

REPAYMENT EXAMPLE

STEP 1 Living Expenses Incurred

	Living Expenses for Program	Living Expenses Actually Incurred
Books/Supplies		
Other Living Expenses (Room, Board, Transportation, Dependent Care, Personal)		

Tot…
Inc… ______

STOP
No calculation necessary.
(Cash disbursement made from loan funds)

STEP 2 Aid Awarded for Payment Period

Pell ______
SSIG ______
A. Total SFA Funds ______
B. School & Other Aid ______
C. Total Aid ______
(add A and B)

STE… …ent period) …ing Expenses

______
______

School & Other Aid ______

Total Cash Disbursed ______

STEP 4 Repayment Amount

Total Cash Disbursed (from Step 3) ______
Total Incurred (from Step 1) ______
Repayment ______

STEP 5 Amount to be Returned to SFA Programs

$$\textbf{Repayment (from Step 4)} \times \frac{\textbf{SFA Funds Awarded (from Step 2A)}}{\textbf{Total Aid Awarded (from Step 2C)}} = \textbf{Amount to SFA Programs}$$

$$\boxed{} \times \frac{\boxed{}}{\boxed{}} = \boxed{}$$

DISTRIBUTION TO SFA PROGRAMS

Refund 3,040
Stafford 1,221
SLS 1,819
PLUS ______
Pell ______
SSIG ______

Repayment ______
Pell ______
SSIG ______

CASE 4—
FIBONACCI TECHNICAL INSTITUTE

- *Loan attribution for programs without terms*
- *Program length greater than academic year*
- *Treatment of cash payment for charges*

The Institute offers programs lasting 1,200 and 900 clock-hours in the fields of electronics and computers. It does not participate in the campus-based programs, but its students are eligible for State grants (SSIG-funded). The Institute charges tuition and fees for the whole program at the time of enrollment.

REFUND POLICY

The Institute uses the refund policy recommended by its State agency:

If the student withdraws after completing:	*The school retains:*
Less than 10%	10%
10-20%	20%
20-30%	40%
30-40%	60%
40-50%	80%
More than 50%	100%

The school also retains a $100 administrative fee.

REPAYMENT POLICY

Other living expenses are prorated based on the weeks the student was enrolled. The 1200-hour programs at the school are scheduled to run for 38 weeks.

DISTRIBUTION POLICY

The Institute's policy is to return the SFA portion of the refund and repayment to the programs in the following order.

1. Stafford
2. SLS
3. PLUS
4. Pell
5. SSIG

PAYMENT PERIODS

The 900-hour program is divided into two payment periods of 450 hours each. The 1200-hour program is divided into three payment periods: 450 hours, 450 hours, and 300 hours.

The school defines an academic year as 900 clock hours for both programs.

STUDENT INFORMATION

Beth C. enrolls at Fibonacci Technical Institute in March in a 1,200-hour program for computer programmers. (She shares an apartment with a girlfriend.) She withdraws from the program after attending for six weeks (151 hours of class).

Costs for the Program • • • • • • • •

Tuition and fees	**$4,100**
Books & Supplies	**$400**
Living Expenses* (Room, Board, Transportation, Personal Expenses)	**$7,220**

Aid awarded and disbursed • • • • • •

Beth was awarded a $2,300 Pell Grant for 1992-93. She applied for a $2,625 Stafford Loan and a $4,000 SLS loan and was approved for both. (The period of enrollment for both loans is the full program length.)

Beth made an initial cash payment of $400 when she signed the enrollment contract and received financial aid payments for the payment period in the following order:

$ 400	**Student's Cash**
$ 500	**State Grant (non-SSIG)**
$1,221	**Stafford Loan**
$1,940	**SLS**
$1,150	**Pell Grant**
$5,211	**TOTAL**

These payments were used to credit Beth's tuition and fee charge ($4,100), and the $400 books and supplies charge. The school gave Beth a check for the remaining $711. Note that the Pell Grant was used to make the cash disbursement .

NOTES

Principles shown:

1) Attribution of Stafford, SLS, and student's cash payment to payment periods of unequal length

2) "Payments credited to school charges" only includes amount of guaranteed loan(s) and student's cash payment that is attributed to the payment period

3) Repayment is calculated for cash disbursement from Pell Grant.

- The first payment period is 38% of the full program length (450 ÷ 1,200 = .38). Thus, the loan amounts attributable to the first payment period are 38% of the total net amount of the loan (after the insurance premium and origination fee have been deducted).

.38 x $2,442 = $ 928
.38 x $3,880 = $1,474

Because the entire first disbursement of the Stafford and the SLS were used to pay school charges, the school must return the "unearned" portion of these loans to the respective lenders.

- Beth withdrew after completing 13% of the program. The school is allowed to retain 20% of the charges under its refund policy.

- As indicated above, only a portion of the Stafford and SLS loans is attributable to the payment period. In addition, only 38% of Beth's cash payment is attributable to the first payment period. Therefore, only $3,093 of the school charges are treated as paid in the refund calculation. (See Step 3)

- Based on the school's policy, Beth's living expenses for the first six weeks amounted to $1,140. Since her cash disbursement was only $711, she does not owe a repayment.

---

* Note that the living expenses used to calculate Pell awards are limited by law. However, the student's actual costs may be used when figuring the costs incurred by the student before dropping out.

CAUTION: Always attribute the amount of a Stafford, SLS, or PLUS loan to payment periods. Any loan funds used to pay school charges in excess of the amount attributed to the payment period(s) the student attended must be returned to the lender.

	Stafford	SLS or PLUS	
	1,221	1,940	Loan amount used to pay school charges
–	928	– 1,474	– Loan amount attributed to payment period(s) the student attended
	293	466	Amount returned to lender

REFUND EXAMPLE

STEP 1 Amount Retained by School (based on refund policy)

	Charges		%Retained	Amount Retained
Tuition/ Fees	4,100	x	.20	820
Administrative Fee			+	100
Total Retained				920

STEP 2 Aid Awarded for Payment Period

Pell	1,150
SSIG	
Stafford	998
SLS/PLUS	1,520
A. Total SFA Funds	3,668
B. School & Other Aid	500
C. Total Aid (add A and B)	4,168

STEP 3 Payments (for payment period) Credited to School Charges

Pell	39
SSIG	
Stafford	928
SLS/PLUS	1,474
Cash Payment by Student	152
School & Other Aid	500
Total Paid Charges	3,093

STEP 4 Refund to Student

Total Paid Charges (from Step 3)	3,093
Total Retained (from Step 1)	920
Refund	2,173

STEP 5 Amount to be Returned to SFA Programs

Refund (from Step 4) **X** **SFA Funds Awarded** (from Step 2A) / **Total Aid Awarded** (from Step 2C) **= Amount to SFA Programs**

$$\boxed{2,173} \times \frac{\boxed{3,668}}{\boxed{4,168}} = \boxed{1,912}$$

REPAYMENT EXAMPLE

STEP 1 Living Expenses Incurred

	Living Expenses for Program	Living Expenses Actually Incurred
Books/Supplies		
Other Living Expenses (Room, Board, Transportation, Dependent Care, Personal)	7,220	x 6/38 = 1,140
Total Incurred		1,140

STEP 2 Aid Awarded for Payment Period

Pell 1,150

SSIG

A. Total SFA Funds 1,150

B. School & Other Aid 500

C. Total Aid 1,650
(add A and B)

STEP 3 Payments (for payment period) to Student for Living Expenses

Pell 711

SSIG

School & Other Aid

Total Cash Disbursed 711

STEP 4 Repayment Amount

Total Cash Disbursed (from Step 3) 711

Total Incurred (from Step 1) 1,140

Repayment 0

STEP 5 Amount to be Returned to SFA Programs

Repayment (from Step 4) **X** **SFA Funds Awarded** (from Step 2A) / **Total Aid Awarded** (from Step 2C) **=** **Amount to SFA Programs**

$$\boxed{0} \times \frac{\boxed{1{,}150}}{\boxed{1{,}650}} = \boxed{0}$$

DISTRIBUTION TO SFA PROGRAMS

Refund 1,912

Stafford 928*

SLS 984

PLUS

Pell

SSIG

Repayment 0

Pell

SSIG

* 293 was returned to lender per attribution calculation

CASE 5 —
BELLE VIEW ACADEMY

- *Pro rata refund*
- *Program less than an academic year*
- *Attributing loan & cash payment*

Belle View Academy has a default rate of 34% and is required to use a pro rata refund policy. The Academy offers 700 clock-hour programs — each program consists of two 350-hour payment periods. It does not participate in the campus-based programs, but its students are eligible for State grants (SSIG-funded). The Academy charges tuition and fees for the whole program at the time of enrollment.

REFUND POLICY

School charges (including books and supplies) are refunded based on the percentage of the program completed:

If the student withdraws:	*The school retains:*	*Refund to student:*
Before classes	0%	100%
1-10%.	10%	90%
11-20%.	20%	80%
21-30%.	30%	70%
31-40%	40%	60%
41-50%	50%	50%

The refund policy established by the school's accrediting agency states that the school may retain a registration fee of $150, but this is subject to the limits imposed by the pro rata refund. (The school may not retain more than 5% of the total charges, or $100, whichever is less, for its administrative fee.)

REPAYMENT POLICY

Living expenses are prorated based on the weeks the student was enrolled. The 700-hour programs at the school are scheduled to run for 26 weeks.

DISTRIBUTION POLICY

The Academy's policy is to return the SFA portion of the refund and repayment to the programs in the following order.

1. Stafford
2. SLS
3. PLUS
4. Pell
5. SSIG

STUDENT INFORMATION

Pam M. enrolls at Belle View Academy on the 5th of March, in a 700-hour program. (She lives at home with her parents.) The program is scheduled to end on August 16. She withdraws from the program on May 15, after attending 238 hours of class.

Costs for the Program • • • • • • • •

Tuition and fees	**$3,200**
Books & Supplies	**$300**
Living Expenses* (Room, Board, Transportation, Personal Expenses)	**$2,300**

Students at Belle View are charged directly for their books and supplies. Pam returned her books and supplies at the time she withdrew.

Aid awarded and disbursed • • • • • • •

Pam was awarded a $500 State grant (not SSIG-funded), and a $1,500 Pell Grant. She applied for a $2,625 Stafford Loan, and the loan was approved.

Pam made an initial cash payment of $500 when she signed the enrollment contract, and received disbursements for the first payment period in the following order:

$ 500	**Student cash**
$ 750	**Pell Grant**
$1,221	**Stafford Loan**
$ 250	**State Grant**
$2,721	**Total**

Pam is left with an outstanding balance of $779. ($3,500 - $2,721 = $779)

NOTES

Principles shown:

1) Attribution of Stafford
2) Pro rata refund calculation
3) Student's cash payment is not attributed
4) Refund amount is reduced by unpaid charges

- The first disbursement of the Stafford Loan ($1,221) is attributed to the first payment period. Thus, no refund to the lender is required under attribution. (If Pam had received the second disbursement of the Stafford Loan, the disbursement would have been attributed to the second payment period, and any amount of the second disbursement used to credit school charges would have had to be returned to the lender.)

- Because Pam withdrew before the halfway point in the program (which would have been June 4th), she is entitled to a *pro rata* refund. Pam had completed 34% of the program when she withdrew, which is rounded up to 40%. Thus, the Academy may retain $1,400 of the charges billed to Pam. The school may also retain an administrative fee of $100.

- Pam's cash payment and financial aid were not enough to pay the full tuition and fee charge. (Note that the full amount of Pam's cash payment is included in the amount paid for school charges.) Therefore, only $2,721 of the charges are treated as paid towards institutional costs. (Note that this is *not* the same amount as her outstanding balance.) Thus, Pam's refund is $1,221, of which $1,089 must be returned to the SFA programs.

- Since there was no cash disbursement, no repayment is calculated.

---

* Note that the living expenses used to calculate Pell awards are limited by law. However, the student's actual costs may be used when figuring the costs incurred by the student before dropping out.

CAUTION: *Always attribute the amount of a Stafford, SLS, or PLUS loan to payment periods. Any loan funds used to pay school charges in excess of the amount attributed to the payment period(s) the student attended must be returned to the lender.*

	Stafford		SLS or PLUS	
	1,221		n/a	Loan amount used to pay school charges
−	1,221	−		− Loan amount attributed to payment period(s) the student attended
	0			Amount returned to lender

PRO RATA REFUND EXAMPLE

STEP 1 Pro Rata amount retained (based on §682.607)

School Charges		% of program completed		Amount Retained
3,500	x	.40	=	1,400

Administrative Fee & Equipment charge (if any) + 100

Total Retained 1,500

STEP 2 Aid Awarded for Payment Period

Pell 750

SSIG

Stafford 1,313

SLS/PLUS

A. Total SFA Funds 2,063

B. School & Other Aid 250

C. Total Aid 2,313
(add A and B)

STEP 3 Payments Credited to School Charges

Pell 750

SSIG

Stafford 1,221

SLS/PLUS

Student's **total*** cash payment for charges 500*

School & Other Aid 250

Total Paid Charges 2,721

STEP 4 Refund to Student

Total Paid Charges (from Step 3) 2,721

Total Retained (from Step 1) 1,500

Refund 1,221

STEP 5 Amount to be Returned to SFA Programs

$$\underset{\text{(from Step 4)}}{\textbf{Refund}} \times \frac{\textbf{SFA Funds Awarded} \ \text{(from Step 2A)}}{\textbf{Total Aid Awarded} \ \text{(from Step 2C)}} = \textbf{Amount to SFA Programs}$$

$$\boxed{1,221} \times \frac{\boxed{2,063}}{\boxed{2,313}} = \boxed{1,089}$$

* **NOTE:** Use full amount paid for the period of enrollment. Do not attribute the student's aid or cash payment to the payment periods when calculating pro rata refunds.

REPAYMENT EXAMPLE

STEP 1 Living Expenses Incurred

	Living Expenses for Program	Living Expenses Actually Incurred
Books/Supplies •	____	____
Other Living Expenses • (Room, Board, Transportation, Dependent Care, Personal)	____	____

Total
rred ____

STOP
No calculation necessary.
(No cash disbursed.)

STEP 2 Aid Awarded for Payment Period

Pell ____
SSIG ____
A.Total SFA Funds ____
B. School & Other Aid ____
C. Total Aid ____
(add A and B)

(for payment period) nt for Living Expenses

Pell ____
SSIG ____
School & Other Aid ____
Total Cash Disbursed ____

STEP 4 Repayment Amount

Total Cash Disbursed ____
(from Step 3)
Total Incurred ____
(from Step 1)
Repayment ____

STEP 5 Amount to be Returned to SFA Programs

$$\text{Repayment (from Step 4)} \times \frac{\text{SFA Funds Awarded (from Step 2A)}}{\text{Total Aid Awarded (from Step 2C)}} = \text{Amount to SFA Programs}$$

$$\boxed{} \times \frac{\boxed{}}{\boxed{}} = \boxed{}$$

DISTRIBUTION TO SFA PROGRAMS

Refund 1,089
Stafford 1,089
SLS ____
PLUS ____
Pell ____
SSIG ____

Repayment ____
Pell ____
SSIG ____

SECTION FIVE: AGREEMENTS BETWEEN SCHOOLS

Two or more institutions may enter into a contractual or a consortium agreement so that a student can continue to receive SFA funds while studying at a school other than his or her "home" institution. (The "home" institution is the one that will grant the student's degree or certificate.) The eligibility regulations (34 CFR Part 600.9, April 5, 1988) have made changes to the requirements for agreements between schools, as discussed below.

CONTRACTUAL AGREEMENT

Portion of program provided by ineligible school

A contractual agreement may be between two or more eligible schools or between eligible and ineligible schools.* Under such an agreement, one school signs a contract to have a portion or all of its educational program provided by another school. Such an agreement must be in writing and may apply to all the SFA programs.

Limitation on contracted portion

An eligible school must give credit to those students in the contracted portion of the program on the same basis as if it provided that portion itself. If the agreement is with an ineligible school, there is a limit on the portion of the program that can be given at the ineligible school. If the eligible and ineligible schools are owned or controlled by the same individual, partnership, or corporation, no more than 25 percent of the educational program can be provided by the ineligible school. If the two schools are separately owned or controlled, the ineligible school may provide up to 50 percent of the educational program. However, in the case of separately owned schools, if the contracted portion is more than 25 percent of the program, the eligible school must get written confirmation from its accrediting agency, association, or State agency that the agreement meets its standards for contracting out of education services.*

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* By "ineligible school," we mean any school that has not been approved as eligible to participate in the SFA programs, as described in Section One of this Chapter.

Examples of contractual agreements

"Contracted portion of an educational program" covers situations ranging from a "junior year abroad" program to a portion of a cosmetology program given by an ineligible cosmetology school under contract with an eligible community college or vocational-technical school. In the traditional academic community, a baccalaureate institution does not jeopardize its eligible programs if no more than one academic year is spent by students at an ineligible institution, such as a foreign institution under the junior year abroad concept. At schools that predominantly grant associate degrees, eligible programs are not jeopardized if students spend no more than one semester or one quarter studying under contract at an ineligible school. (Of course, students may exceed these limits and take up to 50 percent of the program at a separately owned school if the school's accrediting agency has approved the contractual agreement.)

Copy of contract to DEC

The eligible school must send the Division of Eligibility and Certification a copy of the contract if it establishes a program based on a contractual relationship in which 26-50 percent of the program is provided at an ineligible school. The eligible school is responsible for maintaining all records necessary to document student eligibility and receipt of aid. See Section Seven of this chapter for records requirements.

CONSORTIUM AGREEMENT

A consortium agreement, which can exist between eligible schools only, can apply to all the SFA programs. Under such a written agreement, students may take courses at a school other than the "home" institution (the school where the student expects to receive a degree or certificate) and have those courses count toward the degree or certificate at the home school. The home school must give credit for the courses taken at the other school(s) on the same basis as it would for coursework taken at the home school. There is no limit on the portion of the eligible program that may be provided by eligible schools other than the home school.

Elements of a consortium agreement

Agreement contents can vary widely and will depend upon the interests of the schools involved and the accrediting agency or State agency standards. The Department does not dictate the format of the agreement (which can be executed by several different offices) or where the agreement is maintained. However, certain information should be included in all agreements, such as which school will grant the degree or certificate, what the student's tuition, fees, and room and board costs are at each school, and what the student's enrollment status will be at each school. The agreement should also include procedures for calculating awards, disbursing aid, monitoring satisfactory progress and other student eligibility requirements, keeping records, and distributing refunds of SFA program funds. (The school that pays the student is responsible for returning SFA funds.) For information the affect of consortium agreements on the calculation of a student's Pell Grant, see Chapter Four, Section Three.

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* The determination must be made by the school's "nationally recognized accrediting agency or association or recognized State agency." (§600.9)

Effective date of the agreement

The agreement becomes effective for the payment period in which it is signed; however, it can be retroactive to a previous payment period if the payment period is in the same award year. Thus, if an agreement is signed in the middle of a student's spring semester, he or she can be paid for the entire award year, including the preceding fall semester.

DOMESTIC EXCHANGE PROGRAMS

Students usually participate in domestic exchange programs, such as the National Student Exchange, in one of two ways:

1. Through an out-of-State tuition waiver system that allows a student to pay tuition and fees directly to the institution the student is temporarily attending, or

2. By paying tuition and fees at the home institution, while taking courses at another.

Some students have had problems receiving SFA program funds under the first method, because neither the student's "home" institution nor the institution the student is temporarily attending considers the student enrolled in an eligible program of study. These circumstances have caused otherwise eligible students to be denied financial assistance at both schools. In some cases, either because of school policy or State law, the out-of-State tuition waiver system is the only way students can participate in the exchange program. In these cases, for the purposes of SFA programs, the school the student is currently attending may determine that the student is enrolled in an eligible program of study and is therefore eligible for SFA funds.

USE OF AGREEMENTS LIMITED TO CERTAIN SCHOOLS

The eligibility regulations restrict the use of written contractual or consortium agreements to eligible schools that are accredited or preaccredited by a recognized accrediting agency or association, or are approved by a recognized State agency. (The State agency must be recognized by the Department as a reliable authority on the quality of public postsecondary vocational education in the State, and must be listed in the **Federal Register** in accordance with 34 CFR Part 603.)

SECTION SIX: PROGRAM REVIEWS AND AUDITS

With the large numbers of students receiving Federal funds from a variety of programs, some errors are inevitable. The Department uses several methods to ensure that schools, lenders, and guarantee agencies are using correct procedures to award, disburse, and account for the use of Federal funds. In this section we will discuss audits and program reviews that are conducted at schools that participate in the SFA programs, as well as other quality control measures.

If the program review or audit identifies SFA funds that have been improperly awarded, the school must return those funds to the program accounts. However, program reviews and audits are not conducted so much to recover funds as to identify procedural problems at the school and recommend solutions. Several other ways for a school to obtain technical assistance are discussed at the end of the section.

If a program review or audit finds evidence of fraud or other serious program abuse at a school, the school may be subject to corrective action, such as fines, emergency action, or suspension, limitation, or termination of eligibility (see Section Nine of this chapter).

AUDITS

A school that participates in any of the SFA programs must have a non-Federal audit of its program records at least once every two years. These audits must conform to the standards set by the U.S. General Accounting Office (GAO). For convenience, the school may have all its programs audited at the same time.

Single Audit Act

Under the Single Audit Act (chapter 75 of title 31, U.S.C.), certain types of schools that receive funds from more than one Federal agency may have a combined audit of all the Federal programs at that school.* There are three types of non-Federal audits:

- audits governed by ED's *Audit Guide: Audits of Student Financial Assistance Programs*
- A-128 Audits (audits governed by OMB Circular A-128, "Audits of State and Local Governments)
- A-133 Audits (audits governed by OMB Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Organizations"

The type of audit a school may have depends on its eligible institution definition. (See the discussion on the four definitions of eligible institutions, in Section One of this chapter.) All Title IV schools can comply with the audit requirements by having an audit that conforms to the requirements of ED's *Audit Guide.* Public schools may have an A-128 audit instead; nonprofit schools can have A-133 audits instead. The following chart illustrates the various audit options.

Audit Options (By Institutional Definition)

	Institutions of Higher Education		Proprietary Institutions of Higher Education	Postsecondary Vocational Institutions		Vocational Schools		
	Public	Nonprofit	For Profit	Public	Nonprofit	Public	Nonprofit	For Profit
***Audit Guide* Audits**	●	●	●	●	●	●	●	●
A-128 Audits	●			●		●		
A-133 Audits		●			●		●	

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* The Single Audit Act has been implemented by Federal agencies using two circulars prepared by the Office of Management and Budget (OMB). OMB Circular A-128 applies to public schools that are State entities; OMB Circular A-133 applies to nonprofit postsecondary schools. For this reason, audits under this act may be referred to as A-128 or A-133 audits. (OMB Circular A-133 is effective for audit periods beginning on or after January 1, 1990, and supersedes OMB Circular A-110, Attachment F.)

In conducting an audit, a school and its auditor or auditing firm should use the Department of Education's latest *Audit Guide for Student Financial Assistance Programs*, the accounting and recordkeeping manual for the SFA programs known as *The Blue Book*, and the *ED Payment System Users Manual.*

The Blue Book is developed under contract with the Office of Student Financial Assistance. The full title is *The Blue Book: Accounting, Recordkeeping, and Reporting by Postsecondary Educational Schools for Federally-Funded Student Financial Aid Programs.* Schools may request copies of the Department's audit guide and *The Blue Book* by writing to: Federal Student Information Center, P.O. Box 84, Washington, D.C. 20044.

Independent audits

The auditor or auditing firm the school uses for its required non-Federal audit may be the same one that usually audits the school's fiscal transactions. To produce unbiased conclusions, the auditor must be sufficiently independent of those authorizing the expenditure of SFA program funds. The criteria for independence are given in Chapter IV Section B of the GAO *Standards for Audit of Governmental Organizations, Programs, Activities, and Functions.* The most important sections of the *Standards* are published as Appendices B and C of the December 31, 1980 Student Assistance General Provisions regulations. An audit conducted by a State auditor will also satisfy the non-Federal audit requirement.

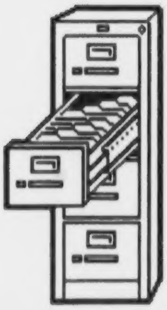
Audits by Inspector General

The Office of the Inspector General (OIG) also conducts audits, usually in cases where there may be concern over the school's administration of the SFA programs. A Federal audit, such as an audit by the Inspector General, does not satisfy the requirement that a school have a non-Federal audit every two years.

Access— includes the right to copy records (including computer records), to examine computer programs and data, and to interview employees without the presence of management or management's tape recorders.

Scope of the audit

Regardless of who is performing the audit, the audit itself will examine whether the school is properly conducting its financial operations and is complying with the laws and regulations that are applicable to the SFA programs. Upon written request, a school must give its independent auditor, the Department of Education or its Inspector General, or the Comptroller General of the United States access to all program and fiscal records. An independent non-Federal audit must cover the school's activities for the entire period since the previous non-Federal audit. The school must make its program and fiscal records available to the auditor, as well as individual student records. Required recordkeeping is discussed in Section Seven of this chapter. Both the financial aid office and the business office should be aware of the dates the auditors will be at the school, and make sure that someone is on hand to provide requested documents and answer any questions during that period.



Exit interview

At the end of the on-site review, the auditor will hold an exit interview with the personnel from the school's financial aid and business offices. The exit interview is not only an opportunity for the auditor to suggest improvements in the school's procedures, but also gives the school a chance to discuss the draft report and review any discrepancies cited in the report. Because of the complexity of financial aid programs, it is not unusual for misunderstandings to arise concerning program requirements and school procedures. The exit interview is a good time to resolve any disagreements before the final report is prepared.

Audit report

For both *Audit Guide* and A-128 audits, the auditor must report all audit findings. (For A-133 audits, the auditor is required to report only audit findings of noncompliance.) For all three types of audits, the school is required to address the auditor's findings in a Correction Action Plan (CAP), submitted to the Regional Inspector General for Audit (RIGA). The CAP can be included with the audit report or submitted as a separate document.

Audit submission deadline

If a school does not receive any campus-based funds, it must submit the audit report and CAP to the RIGA no later than January 31 of the year following the last award year covered by the audit. For example, if the audit covers the two award years 1990-91 and 1991-92, the audit report and CAP must be submitted no later than January 31, 1993. If the school receives funds under the campus-based programs, it has an additional two months (until March 31) to submit its audit report and CAP.

Access to records

Again, the school must give the Department and the Office of Inspector General (OIG) access to any records or other documents necessary to review the audit. In addition, the school's arrangement with the auditor must specify that the auditor will also give the Department and OIG access to the records and documents.

If an audit by the school, its audit agency, or the OIG itself uncovers a questionable expenditure, then OIG notifies the school and the Department. The RIGA will review the audit report only for format, completeness, and to ensure that it complies with the government's auditing standards. After its review, the RIGA forwards the audit report and the CAP to the Audit Review Branch in OSFA; at this point, the RIGA also notifies the school that it has 35 days to add any supplemental information to its CAP.

Based on the audit findings and the school's written explanation, the Audit Review Branch will determine if any funds were spent improperly. The school must repay any improperly spent funds within 45 days, unless the Audit Review Branch grants an extension or the school has appealed the decision.

In addition to reviewing audits, the Department conducts its own program reviews to identify possible problems in the administration of the student financial aid programs by schools. Program reviews are scheduled as time and resources permit, and are usually conducted by an SFA regional office.

In selecting schools for review, the Department gives priority to schools that appear to be experiencing fiscal or administrative problems, based on various factors. The Department also gives program review priority to those schools that have high default rates, a change of ownership, overdue audit reports, a significant increase in GSL or Pell volume, or haven't had a program review in the last four years.

A program review covers many of the same areas as an audit, including fiscal operations and accounting procedures, as well as the school's compliance with the specific program requirements for student eligibility and the awarding of aid. However, program reviews tend to place more emphasis on regulatory requirements that are specific to the SFA programs. In particular, the program review team will usually examine student records and admissions records, fund requests and transfers, records pertaining to due diligence and the collection of Perkins Loans, time sheets and pay rates for the College Work-Study Program, and documents related to the reporting process for the Pell Grant and campus-based programs. The review team will also be reviewing the adequacy of the school's drug prevention program.

MOST FREQUENT AUDIT AND PROGRAM REVIEW LIABILITIES

Incomplete/undocumented verification procedures.

Missing/incomplete financial aid transcripts.

Loan exit/entrance interviews not documented.

Satisfactory progress standards not adequately established or monitored.

Late refunds, or refunds not made at all.

Recipients not eligible, especially for reasons of citizenship.

Excess cash on hand from SFA programs.

Inconsistent information in student file.

Accounting records inadequately maintained.

Improper student budgets.

Ineligible programs or locations.

FISAP Income Grid not documented.

Failure to exercise due diligence in collecting Perkins loans.

Records not maintained as required.

Audit report not submitted.

MOST FREQUENT NON-MONETARY FINDINGS

Consumer information requirements not met.

Banks not notified of Federal funds.

Loan recipients not notified of refunds to lender.

Excessive Perkins loan default rates.

Academic records not properly maintained.

The program review team prepares a written report that will be sent to the school within 30 to 60 days of the review. The school may respond to this report if it wishes to offer additional information to support its position, or if it disagrees with any of the report's conclusions. When the Department has fully considered the school's response and all issues have been resolved,the ED official will send a copy of the final program review determination to the school.

UNANNOUNCED PROGRAM REVIEWS

It may occasionally be necessary for ED officials to perform an unannounced program review. The General Provisions regulations stipulate that ED officials provide a school with a written request for a program review, but do not preclude the Department from providing such a request at the time the reviewers arrive at the school. Therefore, the decision to conduct an unannounced program review is at the discretion of the regional Program Review Branch Chief, but the headquarters office of the Division of Audit and Program Review will be notified in advance.

The criteria for selecting a school for an unannounced program review includes, but is not limited to:

- negative publicity or complaints from local law enforcement agencies
- complaints or incriminating information from students, parents, or current/former school employees, i.e. to the OIG
- negative reports from State agencies, accrediting agencies
- other reasonable suspicion of fraud or abuse at the school

In an unannounced program review, the ED reviewers will present a written request to school officials before beginning the review. The school is expected to have its records organized and readily available, without objection to providing access to those records. However, because certain school officials may not be immediately available during the review, the school will be afforded additional time to submit information regarding the review findings.

Under the General Provisions regulations, the Department has the authority to take emergency action if a school denies access to the reviewers performing an unannounced program review. School officials will be informed if an emergency action is to be taken.

Emergency Action— upon the decision of the Program Compliance Branch, the Department may withhold Title IV program funds from the school or its students, and/or withdraw the school's authority to obligate or disburse Title IV funds.

GUARANTEE AGENCY REVIEWS

The GSL program regulations also require guarantee agencies to conduct program reviews at postsecondary schools. A guarantee agency must conduct biennial (once every two years) on-site reviews at the 10 schools with the highest loan volume through that agency, as well at any school whose loan volume is two percent or more of the guarantee agency's total loan volume. A guarantee agency is also required to conduct biennial program reviews of schools in its State that have a default rate of over 40 percent, and any school with a default rate over 20 percent if the Department notifies the agency that the school does not have a default reduction plan. A program review conducted by a guarantee agency is similar to an ED program review, consisting of an entrance interview, review of student records, an exit interview, and a written report. However, the guarantee agency's review will focus on how the school meets GSL-specific requirements, such as —

- certification of the loan application,
- maintenance of records that support the student's eligibility for the loan,
- processing procedures and payment of loan monies, and
- prompt notification to the lender when the student changes enrollment status, such as below half-time or withdrawing from school.

Two copies of the guarantee agency's report are forwarded to the Department's Division of Audit and Program Review. If liabilities were assessed, the school's payment is also forwarded to the Department.

APPEALING AUDIT AND PROGRAM REVIEW DETERMINATIONS

Only Final Determinations may be appealed

The law allows schools to appeal final audit or program review determinations. Note that the school may only appeal a final determination. The letter conveying a final audit determination is clearly identified as a "FINAL LETTER OF DETERMINATION" and explains the appeals procedures. For a program review, the final determination letter is marked "PROGRAM REVIEW DETERMINATION."

Review by Administrative Law Judge

If a school wants to appeal an audit or program review determination, it must notify, in writing, the Departmental official who issued the determination within 45 days after it receives the determination. If the school makes such a request, the determination will be reviewed by an Administrative Law Judge appointed by the Department. In most cases, an oral hearing will not be required. The school and the Department must submit briefs with any accompanying materials to the Administrative Law Judge, and provide the other party with a copy of its submission at the same time. If the decision of the judge is appealed by either party, the Secretary of Education will review the judge's decision.

If the Administrative Law Judge (or the Secretary) finds that the school improperly expended funds, the school must repay the funds within 30 days of this decision, unless the Department grants an extension.

QUALITY CONTROL AND OTHER REVIEW MECHANISMS

Institutional Quality Control Schools

Though the SFA regulations do not require schools to establish formal quality control programs, many schools have chosen to do so to minimize program error and improve administrative efficiency. Institutional Quality Control schools are exempt from certain verification requirements that duplicate quality control measures.

A workbook on quality control procedures can be requested from the Division of Quality Assurance (see Chapter One for address).

Consultants and peer review

There are other steps that a school can take to improve its operating procedures. For instance, a school might contract with an independent consultant to review its financial aid office to ensure compliance with Federal and State requirements, and to recommend improvements. Or, it might undertake a "peer review" by arranging for a financial aid administrator at another school to visit and review office procedures. Refer to the *Self-Instructional Course in Student Financial Aid Administration* (Module 15 in the 1989 version) for more information.

SECTION SEVEN: RECORDKEEPING AND DISCLOSURE

The General Provisions require schools to maintain student records, and program and fiscal records. Schools must make these records available to auditors and representatives of the Department, in the course of the reviews described in Section Six of this chapter.

Complete and consistent records

The importance of maintaining complete and consistent records cannot be overemphasized. Program and fiscal records must show a clear "audit trail" for SFA program expenditures. Similarly, student records for each SFA recipient must clearly show that the student was eligible for the funds received, and that the funds were disbursed in accordance with program regulations. Any exceptions to the school's normal procedures should be appropriately noted in the file, in terms that would be clear to anyone reviewing the file, whether a program reviewer or another member of the financial aid office staff.

Documenting special circumstances

The law explicitly requires the financial aid administrator to document the student's file when using professional judgment to override a student's dependency status, or to adjust a student's Family Contribution (FC). In general, the financial aid administrator should note in the student's records any unusual situation that explains any special consideration given to the student when awarding financial aid.

This section describes the recordkeeping requirements contained in the General Provisions. We have included a discussion of the Family Educational Rights and Privacy Act, which restricts the disclosure of student records to other parties and requires the school to give a student the opportunity to review his or her records.

PROGRAM AND FISCAL RECORDS

A school must keep consistent and accurate records of its use of SFA funds. These program and fiscal records must be available for review, including, upon written request, any records of transactions between a school and the financial institution where the school deposits any SFA funds. When a school establishes bank accounts for Pell Grant, SEOG, Perkins, or CWS funds, it must inform the bank that these are Federal accounts — either by writing the bank (making sure to keep a copy of the notice) or by including the word "Federal" in the name of the account.

SOME EXAMPLES OF ACCEPTABLE ACCOUNT DESIGNATIONS:

Federal Pell Grant Account
Perkins Loan Federal Cash Account
ABC University - Federal EDPMS Account
ABC University - Federal Cash Account

Without prior written notice to the bank, the account designated as simply "SEOG account" or "ABC University Pell Grant account" would not satisfy the requirement because neither identification indicates that the school will be depositing Federal funds.

STUDENT RECORDS

General student record requirements

In addition to program and fiscal records, a school must keep records that substantiate the eligibility of its students for SFA funds. For each student who receives SFA funds, a school must keep records of —

◆ the student's admission to and enrollment status at the school (and the test results for a student who does not have a high school diploma or GED).

◆ the student's program of study and the courses he or she is taking.

◆ whether the student is making satisfactory academic progress.

◆ all financial aid the student receives (and a financial aid transcript for a transfer student).

◆ all refunds due or paid to the student, the SFA programs, or the Stafford/SLS/PLUS lender.

- whether the student received a job from the school's job placement service.

- verification of information on the student aid application.

- any required certifications (educational purpose, registration status, Anti-Drug Abuse Act, etc.), signed by the student, and any documents used to verify the student's registration status.

The school must also keep records regarding its admission requirements and the educational qualifications of each student in each eligible program — whether or not such a student receives SFA funds.

Admission and enrollment status information

Admission and enrollment status information may include why a student was admitted, how the student's standing compares to that of the average student entering a particular eligible program, and what remedial courses are necessary for the student to complete the program.

High school diploma, GED program, etc.

To ensure that SFA recipients are eligible postsecondary students, a school participating in the SFA programs must document that the student is no longer enrolled in elementary or secondary school. If the student certifies that he or she has a high school diploma or recognized equivalent, the school must keep a copy of the student's certification. A school may also need to keep statistics showing the success of the GED program it makes available to its students, if the GED program is not conducted by State or local secondary school authorities.

Statistics on GED program and campus security; drug prevention materials

New legislation requires that a school keep statistics relating to crimes committed on campus (*see* Section Eight of this chapter). The school must also keep copies of its drug prevention materials, as well as records indicating that these materials were distributed to each student and employee, and the results of the school's evaluation of its drug prevention program. The school must keep its drug prevention program records for at least three years after the fiscal year in which they were created, and must keep the records longer if they are needed to resolve litigation or an audit, program review, or other action.

Specific program record requirements

The individual program regulations also contain record retention requirements that apply to the specific programs. For instance, 34 CFR Parts 690.81 and 690.82 of the Pell Grant regulations require a school to maintain fiscal records for all program transactions, the name and social security number of each student recipient, and records establishing each recipient's eligibility, cost of attendance, and the amount and date of each payment to the student (as well as any repayments to the program accounts on behalf of that student). See the campus-based and guaranteed loan program chapters of this Handbook for the records required by those programs.

Availability of records

Student records must be organized and readily available for review by the Department of Education.* The records must be kept at the degree-or certificate-granting school, although not necessarily in one school office.

RECORD RETENTION REQUIREMENT

Student records must be kept for five years from the following dates:

Pell	The last day of the award year.
SEOG **CWS**	The date that the school files its Fiscal Operations Report for that award year.
Perkins (NDSL)	The date that the school files its Fiscal Operations Report for that award year (award records). The date of the loan's assignment, cancellation, or final repayment (loan records).
Stafford **SLS** **PLUS**	Last day of the loan period (records). Date report is completed (reports).

Microfilm and microfiche records

Records may be maintained on microfilm or microfiche, except for the promissory notes under the Perkins, NDSL, and guaranteed loan programs.** The school must keep records involved in any claim or expenditure questioned by Federal audit until resolution of any audit questions.

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* Refer to the Department's publication *The Blue Book* for further information on recordkeeping.

** Previous editions of the *Handbook* stated that Perkins and NDSL promissory notes could be maintained on microfilm/microfiche providing that the microfilmed copy of a promissory note was adequate evidence of indebtedness and acceptable for litigation under State law. However, we have since been informed that microfilmed copies of promissory notes are not acceptable in any State.

DISCLOSING STUDENT INFORMATION

To protect the privacy of students and families, Federal law sets certain conditions on the disclosure of personal information from records kept by schools that participate in the SFA programs. The relevant law is the Family Educational Rights and Privacy Act of 1974 (FERPA).* The ED regulations that implement FERPA were recently republished in the **Federal Register** (34 CFR Part 99, April 11, 1988).

These regulations set limits on the disclosure of personally identifiable information from school records, and define the responsibilities of the school, and the rights of the student in reviewing the records and requesting a change to the records. A school must give the student the opportunity to inspect and review his or her educational records, but does not have to provide copies of the records unless the requirement that the student come to the school to inspect and review the records would effectively deny access to the student. While the school may not charge a fee for retrieving the records, it may charge a reasonable fee for providing *copies* of the records, provided that the fee would not prevent access to the records.

A school is required to —

- ***Develop a written policy*** listing the types and locations of education records maintained by the school, and stating the procedures for parents and students to review the records.
- ***Notify parents and students*** of their rights with respect to educational records.
- ***Document the student's file*** each time personally identifiable information is disclosed to persons other than the student.

A student has the right to —

- ***Inspect and review*** education records pertaining to the student.
- ***Request an amendment*** to the student's records.
- ***Request a hearing*** (if the request for an amendment is denied) to challenge the contents of the education records, on the grounds that the records are inaccurate, misleading, or violate the rights of the student.

The box to the right notes several important elements of the school's responsibilities and the rights of the student or parent. The regulations apply to *all* education records the school keeps, including admissions records** and academic records as well as any financial aid records pertaining to the student. Therefore, the financial aid office is not usually the office that develops the school's FERPA policy or the notification to students and parents, although it may have some input.

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* FERPA should not be confused with the Privacy Act of 1974, which governs the records kept by government agencies, including the application records in the Federal processing system.

** The application to the school is not covered under FERPA if the student was not admitted to the school.

Disclosure without student's prior written consent

The FERPA regulations also establish rules governing the disclosure of student information to parties other than the student. The regulation lists twelve conditions under which "personally identifiable information" from a student's education record may be disclosed without the student's prior written consent. Several of these conditions are of particular interest to the financial aid office:

1. *Disclosure may be made to authorized representatives of the U.S. Department of Education, the Office of Inspector General, or State and local education authorities.* These officials may have access to education records as a part of an audit or program review, or to ensure compliance with SFA program requirements. ("Representatives of the Department" includes research firms that are under contract with the Department to conduct studies of financial aid procedures, using student information provided by the schools selected for the study. The term also includes the OSFA public inquiry contractor.)

2. *Disclosure may be made if it is in connection with financial aid that the student has received or applied for.* For instance, the school may receive a request from the Immigration and Naturalization Service (INS) or the Federal Bureau of Investigation (FBI) for access to a student's records. Such a request may only be granted if the student information is needed to determine the amount of the aid, the conditions for the aid, the student's eligibility for the aid, or to enforce the terms or conditions of the aid.

3. *Disclosure may be made to the student's parent, if the student is a dependent of the parent, as defined by the Internal Revenue Service.* If the student receives more than half of his or her support from the parent, under the IRS definition, the student is a dependent of the parent. (Note that the IRS definition is quite different from the rules governing dependency status for the SFA programs.)

4. *Disclosure may be made to organizations that are conducting studies concerning the administration of student aid programs on behalf of educational agencies or institutions.*

Documenting requests for information

Schools are required to keep a record of each request for access and each disclosure of personally identifiable student information. The record must identify the parties who requested the information and their legitimate interest in the information. This record must be maintained in the student's file as long as the educational records themselves are maintained.

Sample disclosure statement for program reviews

If student records are requested by ED reviewers in the course of a program review, for instance, the school must document in each student's file that the student's records were disclosed to representatives of the Department. The easiest way for the school to do this, is to photocopy a statement to this effect and include it in each student's file. A statement such as the following would be appropriate for a review of the SFA programs conducted by an ED regional office: "These financial aid records were disclosed to representatives of the U.S. Department of Education, Institutional Review Branch, Region __, on (Month/Day/Year) to determine compliance with financial aid requirements, under 34 CFR Part 99.31(a)(4)."

Redisclosure to other authorized parties

When student information has been disclosed to one of the parties listed above, that party may redisclose that information to additional parties who are authorized to receive the information without prior written consent, provided that such redisclosure is included in the statement in the student's file. For instance, if a program review finds evidence that a student may have fraudulently obtained aid, this information may be redisclosed to the ED Office of Inspector General by the regional office. (Thus the Office of Inspector General would not have to make a separate request to the school for the same information.) When redisclosure is anticipated, the additional parties to whom the information will be disclosed must be included in the record of the original disclosure. For instance, to continue the example for an SFA program review, the following statement might be added: "The Institutional Review Branch may make further disclosures of this information to the ED Office of Inspector General, and to the U.S. Department of Justice, under 34 CFR 99.33(b)." You should check with the program review staff to find out if any redisclosure is anticipated.

As mentioned earlier, the financial aid office is usually not responsible for developing the school's FERPA policy. However, if you are involved in developing your school's policy and would like a copy of the Department's model policy for postsecondary schools, you may write to the following address:

Family Policy and Compliance Office
U.S. Department of Education
Room 3017, FB-6
400 Maryland Avenue, S.W.
Washington, D.C. 20202-4605

SECTION EIGHT: STUDENT CONSUMER INFORMATION

The basic requirements for the consumer information that a school must provide to a student were established in the General Provisions in 1979. These requirements stressed the importance of providing students with reliable information about the school's academic programs and facilities, and about the financial aid available at the school.

In recent years, concern about the number of defaulted Federal student loans has led to renewed interest in providing students with information necessary to choose an appropriate academic program and to fully understand the responsibility to repay a student loan. As discussed in Section Two of this chapter, a school must provide loan counseling to student borrowers. Other loan counseling requirements are covered in our discussion of guaranteed student loans (Section Eight, Chapter Ten).

BASIC CONSUMER INFORMATION REQUIREMENTS

Subpart D of the General Provisions lists basic information about the school and about financial aid that must be available to current and prospective students, usually through printed materials. If necessary, these materials must be prepared by the school. However, many of the items described below will already be available in brochures and handouts routinely disseminated by the school, or in Federal publications such as the *Student Guide.*

Financial aid information

The following minimum information must be provided—

- what Federal financial aid programs are available to students.
- what State and local aid programs, school aid programs, and other private aid programs are available.
- how students apply for assistance and what standards the school uses to determine eligibility.

Financial aid information (cont'd)

- how the school distributes aid among students.
- the rights and responsibilities of students receiving financial assistance.
- how and when financial aid will be disbursed.
- the terms and conditions of any employment that is part of the financial aid package.
- the terms of, and schedules for, repayment of student loans.
- the criteria for determining whether a student is maintaining satisfactory academic progress, and how a student who has failed to maintain satisfactory progress may reestablish eligibility for Federal financial aid.
- information for preventing drug and alcohol abuse, as discussed later in this section.

The school must provide the following minimum information about itself —

General information about the school

- the names of associations, agencies, or governmental bodies that accredit, approve, or license the school and its programs, and the procedures for a student to review the school's accreditation, licensure, or approval.
- any special facilities and services available to handicapped students.
- the costs of attending the school, including tuition and fees, estimates of books and supplies and typical student room and board costs or typical commuting costs, and any additional costs of the program in which the student is enrolled or has expressed an interest.
- the school's policy on refunds and on distributing SFA refund amounts (see Section Four).
- the current degree programs and other educational and training programs.
- the availabilty of a GED program, if the school admits students who do not have a high school diploma or equivalent (see Section One).

- the instructional, laboratory, and other physical plant facilities associated with the academic programs.
- a list of the faculty and other instructional personnel.
- the standards the student must maintain to make satisfactory academic progress.
- who to contact for information on student financial assistance.

Availability of financial aid personnel

The school must have someone available during normal operating hours to help persons obtain consumer information. One full-time employee or several persons may be assigned so that someone is always available (with reasonable notice) to assist current or prospective students and their families. Existing personnel may satisfy this requirement. A school may request a waiver of this requirement if it can demonstrate that a waiver is appropriate. (Contact the Institutional and Lender Review Branch of the Division of Eligibility and Certication.)

COMPLETION AND GRADUATION RATES

Information to substantiate job placement claims

Schools that recruit students by using marketing claims regarding job placement must substantiate such claims. At or before the time of application, the school must provide to prospective students, the most recent available data concerning employment statistics, graduation statistics, and other information necessary to substantiate its claims.

Suspension of TRDF

Schools are no longer required to use the Track Record Disclosure Form (TRDF) to disclose or report information on program completion, State licensure, testing, or job placement. However, all schools are now subject to the disclosure requirements of the Student Right-to-Know and Campus Security Act (P.L. 101-542, amended by P.L. 102-26).

The Student Right-to-Know Act requires a school to disclose its completion or graduation rates beginning July 1, 1993. Schools must provide such information to prospective students (prior to the student's enrolling or entering into any financial obligation or loan agreement) and to all current students.

Completion/ graduation rates

July 1, 1993 — Published rates will be based on the period from July 1, 1991 through June 30, 1992. Annually thereafter, the school will update and calculate rates on July 1, for the one-year period ending on June 30 of the preceding year.

"Cohort" Method For Calculating Completion Rates:

Calculation of rates

Set Cohort. Schools should establish a cohort of students who enter the school with a given period of time; this cohort must be limited to full-time, undergraduate, degree- or certificate-seeking students who are entering postsecondary education for the first time. Students with previous coursework above the secondary level cannot be included, except in the case of students who took courses at the school during the previous summer after July 1 who continued into the fall, or who earned advanced placement credit while in high school. (Those few schools that accept only transfer students from other schools will calculate the rates using transfer students, because the law requires that every school calculate and disclose these rates.)

Enrollment period for cohort— July 1 through Sept. 30, for schools with continual enrollment; for all other schools, the fall enrollment period (to include students who entered after July 1 and continued enrollment into the fall).

The cohort is a static field

A student has completed or graduated if he or she completes the program within 150% of the normal time-frame for completion of that program. A student who transfers to a higher level program at another eligible school will also be counted as a completion (for the first school) if the prior program provided substantial preparation for study at the second school. Students who transfer to another program within the school will remain in the cohort, as will students who drop to half-time status. Once it is set, the cohort is a static field. Therefore, regardless of how many students graduate, transfer out, drop to part-time, etc., the total cohort population changes only if certain cohort students are later excluded.

Students excluded from cohort— students who leave the school to serve in the armed services, on an official church mission, or with a recognized Federal foreign aid service.

	disclosure period	cohort activity	Total # of students in cohort
1st yr.	7/91 - 6/92	100 enrolled; cohort set	100
2nd yr.	7/92 - 6/93	7 drop to part-time, 8 transfer, 10 drop out	100
3rd yr.	7/93 - 6/94	6 withdraw (3 to join Peace Corps), 2 transfer*	97
4th yr.	7/94 - 6/95	12 graduate, 1 withdraws (for a church mission)	96

*to same-level program

The school must track the progress of each cohort student for 150% of the normal time that is required to complete his or her program. Because the timeframes vary according to program length, a school must track the students by program; however, the law requires the disclosure of a single rate, so each year the data from all the school's programs should be combined to produce an overall rate of completion.

Therefore, a school cannot produce a single completion rate for all its programs until the cohort students in its longest program have been tracked for 150% of the program length. For example, if a school's longest program is two academic years, it must track at least some its cohort students for three years before the calculation of a completion rate for all its programs is possible. By this method, many schools will not be able to publish an actual completion rate on July 1, 1993, for the academic period from July 1, 1991 through June 30, 1992.

For example, even if a school's maximum program length is only 9 months, the 9-month program must be tracked for 14 months. For a program starting in September 1991, tracking would continue through October 1992. The school cannot publish a completion rate for all its programs until July 1994, when it would calculate a rate based on the period of July 1, 1992 through June 30, 1993. The maximum tracking period for most schools will be even longer, assuming the programs start in September 1991:

maximum program length	maximum tracking time	earliest publication of averaged rate
6 mos.	9 mos.	July 1993
9 mos.	14 mos.	July 1994
12 mos.	18 mos.	July 1994
2 yrs.	3 yrs.	July 1995
3 yrs.	4.5 yrs.	July 1997
4 yrs.	6 yrs.	July 1998

Persistence rate

Until a school is able to calculate and publish a completion rate for all its programs, the school should calculate a "persistence rate" instead. A persistence rate represents the number of students in the cohort who were enrolled in the school for the period of the following cohort (i.e., either July through September, or fall enrollment, depending upon the type of school). For example, a school may have a total of 100 students enroll in the fall of 1991, all for a 4-year program; these students would constitute the school's "cohort" for the July 1, 1993 disclosure requirement.

	disclosure period	cohort status	disclosure date and rate
1st yr.	7/91 - 6/92	100 enroll; 93 re-enroll by June 30	7/1/93: 88% PR
2nd yr.	7/92 - 6/93	86 re-enroll, 7 drop out	7/1/94: 86% PR
3rd yr.	7/93 - 6/94	80 re-enroll, 13 drop out	7/1/95: 80% PR
4th yr.	7/94 - 6/95	60 graduate, 4 drop out, 16 re-enroll	7/1/96: 16% PR
5th yr.	7/95 - 6/96	8 graduate, 1 drop out, 7 re-enroll	7/1/97: 7% PR
6th yr.	7/96 - 6/97	6 graduate, 1 re-enrolls	7/1/98: 74% Grad Rate

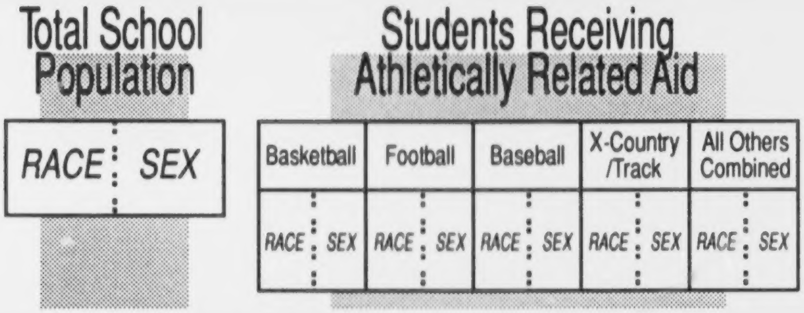
Information for student-athletes

The Student Right-to-Know Act also requires additional disclosure from schools that award athletically related student aid. These schools must provide information about the number of students who receive athletic aid as compared to the total number of students at the institution, and the completion rate for student athletes compared to the rate for the student body at large. Beginning July 1, 1993, schools must provide this information to the Secretary in an annual report, and to each potential student athlete (and his/her parents, guidance counselor, and high school coach) whenever athletic aid is offered.

Athletically related student aid — any scholarship, grant, or other form of financial assistance, the terms of which require the recipient to participate in a program of intercollegiate athletics at the school in order to be eligible to receive such assistance.

As with the general completion rates discussed previously, the data available on July 1, 1993, will be based on the period from July 1, 1991 through June 30, 1992 and the cohort methodology also applies to this section of the statute. Annually thereafter, the school will update and report the data on July 1, for the one-year period ending June 30 of the preceding year. In addition to reporting data for that specific year, the school must also report the average completion rates for the four most recent classes of students, for the total student population and for those students receiving athletic aid. All of these completion rates must be broken down by race and sex. Further, the data for students receiving athletic aid must be broken into the following sports categories: basketball, football, baseball, cross country/track, and all other sports combined.

CATEGORICAL BREAKDOWN FOR REPORTING THE DATA



The completion and graduation rates to be provided to student athletes should be calculated using the "cohort" method discussed previously, calculating the "persistence rates" until completion rates and average completion rates can be calculated. Schools may provide supplemental information to students showing the effect on the completion or graduation rates of students who transfer to and from the school. If a school is a member of an athletic association or conference that has published information that the Department finds to be substantially comparable to that required by the law, the school may satisfy the requirement by distributing that information. (The law also provides for a possible waiver for such schools, but no waiver has been granted to date.)

This preliminary information is taken from the law and "Dear Colleague" letters GEN-91-14 and GEN-91-27. An NPRM will be published shortly, at which time the public may comment and request changes.

CAMPUS SECURITY

The Student Right-to-Know Act also requires a school to provide an annual campus security report to all of its current and prospective students and employees. This information is to be provided through publications and mailings beginning on September 1, 1992.

Campus security report

The campus security report will provide information regarding campus security policies and campus crime statistics. The report must discuss the role and function of campus security personnel, the school's procedures for reporting (and responding to reports of) emergencies and crimes, and school security policies regarding on- and off-campus facilities. The report should also outline the school's policy regarding alcohol- and drug-related violations, including use, sale, possession, and underage drinking. Lastly, the report must describe the informational programs available to students and employees about crime prevention, campus security, and alcohol or drug abuse (as required by law).

Crime statistics

The statistical portion of the campus security report must include data on the occurrences of murder, rape, robbery, aggravated assault, burglary, and motor vehicle theft on campus, as reported to campus security personnel or local law enforcement authorities, during the last three years.

On-Campus — includes 1) any building or property owned or controlled by the school within the same contiguous area and used by the school in direct support of or related to its educational purposes, or 2) any building or property owned or controlled by student organizations recognized by the school.

Statistics must also be provided showing the number of on-campus arrests for liquor law violations, drug abuse violations, and weapons possessions. These statistics should reflect only the nature and specific conditions of the crimes and arrests; no names should be collected or reported for the purposes of these statistics. Schools were required by law to begin collecting these statistics on August 1, 1991.

Schools must make the campus security report available on September 1, 1992. It must be distributed annually to all students and employees (and upon request to prospective students and employees), and should be included in school publications and mailings where possible.

September 1, 1992— Publish campus security report, including campus crime statistics for the period August 1, 1991 through July 31, 1992, and for any two years for which data is available (until July 31, 1994, when three consecutive years of data will be available).

Program Participation Agreement amended

Also, schools must submit campus security policies and statistics to the Department upon request, for inclusion in the Department's report to Congress on campus crime (scheduled for 1995). The Program Participation Agreement has been amended to include a certification of campus security policy and information disclosure. All participating institutions must provide this certification. Any schools who have not signed a new Agreement that includes the campus security certification should write the Department's Institution and Lender Certification Branch at P.O. Box 84, Washington, DC 20044, or call (202)708-7236. This preliminary information is taken from the law and "Dear Colleague" letter GEN-91-14 and GEN-91-27. ED will be providing further information concerning these requirements through regulations and Dear Colleague letters.

LOAN COUNSELING

General loan information, repayment options, and debt management planning

The law includes several specific counseling requirements. A school must counsel borrowers under the Perkins and guaranteed loan programs regarding the cost of the loan. The counseling may be individual or in groups. Specifically, the school must give the borrower general information on the average indebtedness of students, the average anticipated monthly repayments on the loan, and review the repayment options available to the student, together with debt management planning to facilitate the repayment. The default reduction regulations require that this counseling be given to the student before the student takes out a loan. If the student withdraws without notifying the school, this information must be sent to the student at the student's last known address.

Alternatives to borrowing — State aid

Any loan counseling should also include information about alternatives to borrowing. Schools must inform all eligible guaranteed student loan borrowers of the availability of State grants in the State in which the school is located, and must refer out-of-State borrowers to the source of information for aid from their home State. (A list of State agencies is provided in Chapter Nine.) While this information can be made available to students through printed materials, it would be useful to mention these alternatives when counseling students who are applying for loans.

Use of audiovisual and written materials

There is no prescribed format for adequate financial aid counseling. For example, the use of audiovisual materials can be very effective. In fact, the guaranteed student loan regulations now authorize schools to use videotape presentations to provide the initial counseling given to a borrower. However, the school must make sure that someone who is well-informed about the SFA programs is reasonably available shortly after the counseling presentation to answer borrowers' questions. (Correspondence schools must provide borrowers with written counseling materials by mail prior to disbursing the loan proceeds.)

The default reduction regulations have added specific information that must be given in the course of entrance and exit counseling to students who are borrowing in the Stafford and SLS programs. For a complete discussion of loan counseling requirements in these programs, please see Chapter Ten.

DRUG AND ALCOHOL ABUSE PREVENTION INFORMATION

Schools that participate in the campus-based programs are required to provide information under the Drug-Free Workplace Act of 1988 (P.L. 101-690), including a notice to its employees of unlawful activities and the actions the school will take against an employee who violates these prohibitions. More recently, the Drug-Free Schools and Communities Act (P.L. 101-226) requires schools that participate in *any* SFA program to provide information to its students, faculty, and employees to prevent drug and alcohol abuse. The regulations implementing the Drug-Free Schools and Communities Act list the following information that the school must provide in its materials:

Information to be included in drug prevention materials

- Standards of conduct that clearly prohibit, at a minimum, the unlawful possession, use, or distribution of drugs and alcohol by students and employees on the school's property, or as a part of of the school's activities.
- A description of the applicable legal sanctions under local, State, and Federal law for unlawful possession, use, or distribution of illicit drugs and alcohol.
- A description of the health risks associated with the use of illicit drugs and alcohol.

- A description of any drug and alcohol counseling, treatment, or rehabilitation programs that are available to students and employees.

- A clear statement that the school will impose sanctions on students and employees (consistent with local, State, and Federal law) and a description of these sanctions, up to and including expulsion or termination of employment, and referral for prosecution of the standards of conduct.

The appendices and Comments and Responses sections of the August 16, 1990 regulations provide additional guidance and information for schools to use in developing these materials.

Distribution of materials to all students and employees

The school may include this information in publications such as student or employee handbooks, provided that these publications are distributed to each student and employee. Merely making drug prevention materials available to those who wish to take them is not sufficient. The school must use a method that will reach every student and employee, such as the method used to distribute grade reports or pay checks. The school must distribute these materials annually. If new students enroll or new employees are hired after the initial distribution for the year, the school must make sure that they also receive the materials. For more information on anti-drug abuse requirements, see Section Two.

MISREPRESENTATION

The General Provisions permit the Department to fine a school, or limit, suspend, or terminate the eligibility of any school that substantially misrepresents the nature of its educational program, its financial charges, or the employability of its graduates.

Definition of misrepresentation

A *misrepresentation* is any false, erroneous or misleading statement a school makes to one of its students or prospective students,* to the family of an enrolled or prospective student, or to the Department. Misrepresentation includes the dissemination of endorsements and testimonials that are given under duress. *Substantial misrepresentation* is defined in the General Provisions as any misrepresentation on which the person to whom it was made could reasonably be expected to rely, or has reasonably relied, to that person's detriment.

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* For purposes of misrepresentation, the General Provisions define prospective students as individuals who have contacted the school to request information about enrolling at the school or who have been contacted directly by the school or indirectly through general advertising about enrolling at the school.

Accreditation, facilities, etc.

The General Provisions give examples for several types of misrepresentation. Misrepresentation of the educational program includes false or misleading statements about the school's accreditation, the school's size, location, facilities, or equipment.

Misrepresentation of scholarships

Misrepresentation of the nature of the school's financial charges includes false or misleading statements about scholarships that the school provides to pay school charges. To be considered a scholarship, it must actually be used to reduce tuition charges made known to the student before the scholarship was offered to the student. (The tuition charges must be charges that are applied to all students *not receiving a scholarship.*) It is also considered misrepresentation if the school gives false or misleading information as to whether a particular charge is a customary charge for that course at the school.

Misrepresentation of employability of graduates

Misrepresentation of the employability of the school's graduates includes any false or misleading statements —

- That the school is connected with any organization or is an employment agency or other agency providing authorized training leading directly to employment,
- That the school maintains a placement service for graduates or will otherwise secure or assist its graduates to obtain employment, unless it provides the student with a clear and accurate description of the extent and nature of this service or assistance, or
- Concerning government job market statistics in relation to the potential placement of its graduates.

The regulatory provisions concerning misrepresentation are given in detail on the next page.

Nature of educational program

§668.72 Misrepresentation by an institution of the nature of its educational program includes, but is not limited to, false, erroneous or misleading statements concerning—

- The particular type(s), specific source(s), nature and extent of its accreditation;
- Whether a student may transfer course credits earned at the institution to any other institution;
- Whether successful completion of a course of instruction qualifies a student for acceptance into a labor union or similar organization;
- Whether successful completion of a course of instruction qualifies a student for receipt of a local, State, or Federal license or a nongovernment certification required as a precondition for employment or to perform certain functions;
- Whether its courses are recommended by vocational counselors, high schools or employment agencies, or by governmental officials for government employment;
- Its size, location, facilities or equipment;
- The availability, frequency and appropriateness of its courses and programs to the employment objectives that it states its programs are designed to meet;
- The nature, age and availability of its training devices or equipment and their appropriateness to the employment objectives that it states its programs and courses are designed to meet;
- The number, availability and qualifications, including the training and experience, of its faculty and other personnel;
- The availability of part-time employment or other forms of financial assistance;
- The nature and availability of any tutorial or specialized instruction, guidance and counseling, or other supplementary assistance it will provide its students before, during or after the completion of a course;
- The nature and extent of any prerequisites established for enrollment in any course; or
- Any matters required to be disclosed to prospective students under Sec. 668.44 of this part. [NOTE: See list in this section of the *Handbook*.]

Nature of financial charges

§668.73 Misrepresentation by an institution of the nature of its financial charges includes, but is not limited to, false, erroneous or misleading statements concerning—

- Offers of scholarships to pay all or part of a course charge, unless a scholarship is actually used to reduce tuition charges that are applied to all students not receiving a scholarship and are made known to the student in advance; or
- Whether a particular charge is the customary charge at the institution for a course.

Employability of graduates

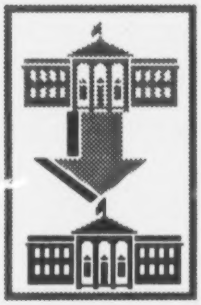
§668.74 Misrepresentation by an institution regarding the employability of its graduates includes, but is not limited to, false, erroneous or misleading statements—

- That the institution is connected with any organization or is an employment agency or other agency providing authorized training leading directly to employment.
- That the institution maintains a placement service for graduates or will otherwise secure or assist its graduates to obtain employment, unless it provides the student with a clear and accurate description of the extent and nature of this service or assistance; or
- Concerning government job market statistics in relation to the potential placement of its graduates.

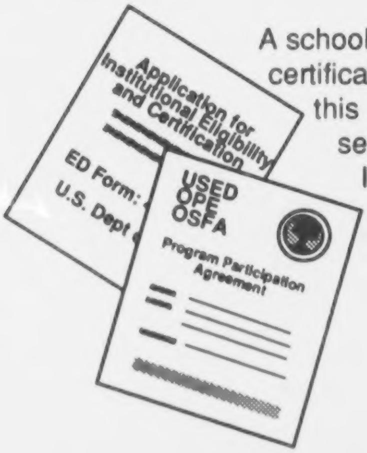
SECTION NINE: APPLYING FOR ELIGIBILITY, STATUS CHANGES, AND CORRECTIVE ACTIONS

In this section we will discuss how a school applies for eligibility, and changes that affect a school's eligibility, ranging from changes in the ownership or location of the school, to corrective actions taken by the Department.

APPLYING FOR ELIGIBILITY

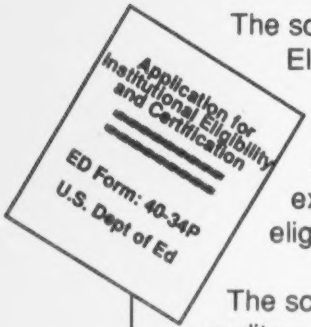


If a school believes it is eligible to participate in the SFA programs, based on one or more of the institutional definitions given in Section One of this chapter, it should apply for eligibility from the Division of Eligibility and Certification (DEC). There are two separate steps for a school to begin participating in the SFA programs. The first step is the eligibility process, which evaluates a school's eligibility to participate in all programs under the Higher Education Act, based on the four institutional definitions. The second step is the certification process, which evaluates the school's financial responsibility and its capability to administer the SFA programs in accordance with the program statutes and regulations.


Application for Institutional Eligibility and Certification
ED Form:
U.S. Dept
USED
OPE
OSFA
Program Participation Agreement

A school that wishes to apply for eligibility and certification should write to DEC (see Chapter One of this Handbook for the address). The school will be sent an ED Form E-40-34P (Application for Institutional Eligibility and Certification), and two copies of the Program Participation Agreement.

ED Form E-40-34P and Program Participation Agreement


Application for Institutional Eligibility and Certification
ED Form: 40-34P
U.S. Dept of Ed

The school should complete the Application for Institutional Eligibility and Certification and the Program Participation Agreement and return them (with financial statements and other requested documents) to DEC. DEC will evaluate the school's application for eligibility and will confirm it, deny it, or explain what additional information is needed. If the school is eligible, DEC will send it an Institutional Eligibility Notice.

The school must keep the eligibility letter available for review by auditors and Department of Education officials, including SFA program review staff. Remember that this is only the first step toward participation in the SFA programs. If a school is determined eligible, it means only that the school may *apply* to participate in the Title IV programs; an eligible school cannot automatically participate in or receive funds from the SFA programs. The school cannot begin participation or receive funds until it has been certified and has received a signed Program Participation Agreement.

CERTIFICATION AND THE PARTICIPATION AGREEMENT

If a school is determined eligible, it must then be certified as administratively capable and financially responsible to participate in the SFA programs. (The standards for administrative capability and financial responsibility are discussed in Section Two.)

To be certified, a school must submit two copies of the Program Participation Agreement and the requested financial statements along with the application for eligibility and certification (ED Form E40-34P). These materials will automatically be forwarded to the Institution and Lender Certification Branch (ILCB) within DEC for review.

Scope of the Participation Agreement

The Program Participation Agreement is an agreement between a school and the Department of Education and covers the school's participation in the following programs: Pell, SEOG, CWS, Perkins, and Stafford/PLUS/SLS. The Agreement does not make a school a lender under the Stafford/PLUS/SLS programs, nor does it cover participation in the Income Contingent Loan, Byrd, Douglas, or SSIG programs.

USED
OPE
OSFA
Program Participation Agreement

Under the Agreement, the school agrees to comply with 34 CFR Part 668 (the Student Assistance General Provisions); 34 CFR Part 99 (Family Educational Rights and Privacy Act); 34 CFR Parts 100 and 101 (Civil Rights Requirements); 34 CFR Part 106 (non-discrimination on the basis of sex); 34 CFR Part 104 (non-discrimination on the basis of handicap);

and 45 CFR Part 90 (non-discrimination on the basis of age). The school also agrees to comply with the applicable program regulations.

Termination of Agreement

The Agreement automatically terminates when the school is recertified under a new agreement. The Agreement also terminates when the school has a change of ownership that results in a change of control, when the Department terminates the Agreement under a program regulation, or when the school terminates the agreement or loses eligibility. The loss of eligibility may occur either through formal termination proceedings, or through other means (loss of accreditation, ceasing to provide educational instruction, etc.)

ILCB reviews school's application; financial aid training required

When it receives the Application for Institutional Eligibility and Certification, the financial statement, and two copies of the Program Participation Agreement, ILCB evaluates the school's financial responsibility and administrative capability. Schools seeking to participate in any SFA program for the first time are required to send representatives to pre-certification training sponsored by the Department. In some cases, the Department may also perform an on-site review.

PRE-CERTIFICATION TRAINING REQUIREMENT

In accordance with the General Provisions regulations published November 3, 1989, a school that is undergoing initial certification to participate in an SFA program must send two representatives to a basic training workshop offered by the Department. The five-day workshop provides a general overview of the administration of the SFA programs. It does not cover fiscal and accounting procedures in any detail (the Department offers Fiscal Officer Training separately). The school must send an administrative representative and a financial aid representative.

The administrative representative is the chief executive officer of the school (non-profit schools may send another official designated by the chief executive officer). The administrative representative must attend at least the first two days of the workshop.

The financial aid representative is the person designated by the school to be responsible for administering the SFA programs. The financial aid representative must attend for the full five days of the workshop, but does not have to attend the same session as the administrative representative.

If your school uses a consultant to administer its financial aid, the consultant must attend the training as the school's financial aid representative. (If the consultant has already attended pre-certification training, the school may request an on-site review instead.) Because the school is ultimately responsible for the proper administration of SFA funds, the Department strongly recommends that a financial aid employee from the school attend the training, even if the consultant will also be attending.

A school that is undergoing certification will be notified of the training requirement and will be provided with a schedule of workshops and registration instructions. The school will not be certified to participate in the SFA programs until the training requirement is fulfilled.

Effective date for participation

If the ILCB determines that the school is administratively capable and financially responsible, and the school's representatives have completed the pre-certification training, it certifies the school and sends it one copy of the Program Participation Agreement, signed and dated by a representative of the Department. The date the Secretary signs the Agreement is the date a school may begin participation in the SFA programs — *not* the date of the Eligibility Notice the school receives from DEC. Financial aid disbursements to students may begin in the payment period that the Participation Agreement is signed by the Department.

The ILCB will notify the Division of Program Operations and Systems, the regional offices, and State guarantee agencies once the school is certified to participate.

CHANGE OF OWNERSHIP OR CONTROL

Schools that change ownership, resulting in a change of control, do not automatically remain eligible to participate in the SFA programs. The Program Participation Agreement signed by the previous owner expires on the date the change of ownership or control takes place.

Change in controlling interest

A change in ownership resulting in a change of control occurs when a person or a corporation obtains new authority to control a school's actions, whether the school is a proprietorship, partnership, or corporation. The most common example of a change in control is when the school is sold to a new owner.

Transfer of assets or liabilities; mergers or divisions

However, there are other ways in which the control of a school can change. For instance, a school's control changes when the school transfers its controlling (more than 50 percent) interest of stock or its assets to the parent corporation. A school's control also changes in situations where two or more schools merge, one school divides into two or more schools, or the school transfers its liabilities to its parent corporation.

Steps to be taken by current owners

To continue to participate in the SFA programs, a school that is changing control must take steps to reaffirm its eligibility and its certification. The current owner(s) should notify DEC of the date the change of control will take place. The school must notify DEC at the same time that it notifies its accrediting agency, but no later than 10 days after the change occurs. DEC will then notify the school that, effective on the date of the change, it is no longer participating in the SFA programs, until its new owner confirms its eligibility, reestablishes its certification, and has a new Program Participation Agreement signed by the Secretary. DEC will send the school an Application for Institutional Eligibility and Certification (ED

Form E-40-34P), two copies of the Program Participation Agreement, and a request for other documents and information. The school must submit these materials to DEC for a concurrent review of institutional eligibility and certification.

The current owner should also notify the appropriate State agency that licensed or approved the school.

Impact of cohort default requirements

Certain requirements related to cohort default rates apply when a school changes ownership. If the new owner applies for eligibility to participate in the SFA programs as a continuation of the old school, the new owner remains responsible for the school's cohort default rates and for implementing any requirements associated with those rates.

New owners should be aware that cohort default rates calculated for fiscal years prior to the change of ownership may impact on the school's ability to participate in Title IV programs. In fact, a school undergoing a change of ownership may be refused certification for participation in any Title IV program on the basis of current cohort default rates.

Payments to eligible students

Before the school is sold, the current owner should make sure all students have received any financial aid payments already due them for the current payment period, and that all records are current and comply with Federal regulations. If a school needs additional funds for its students for the current payment period, it should request them and disburse them to all eligible students before the sale takes place. **The new owner(s) may not disburse funds awarded under the Program Participation Agreement signed by the previous owner(s), nor may the previous owner(s) continue to disburse funds after the date of the ownership change.**

Audits and close-out procedures

Although an audit is not required, the new owner should have the accounts audited before they are closed out. If a school official has any questions concerning student financial assistance accounts or close-out procedures, he or she should contact the area representative for the Pell Grant Program, or the Campus-based or Guaranteed Student Loan branches of the Division of Program Operations and Systems (see Chapter One for organizational information and phone numbers). The new owner should also check with the Department's Regional Office for information on whether the school owes any ED liabilities resulting from program reviews or audits.

The current owner should give the new owner(s) copies of the school's current Eligibility Letter, program reviews, and audit report.

The new owner(s) should complete and promptly return the Application for Institutional Eligibility and Certification, Program Participation Agreement, and other requested information. The school must submit financial

Steps to be taken by new owner

statements for the new owners, listing their assets, liabilities, and net worth, and either ***1)*** a profit and loss statement and balance sheet for the latest complete fiscal year, or ***2)*** an audit report for the latest complete fiscal year, prepared by a licensed certified public accountant. If the previous owner(s) did not notify DEC of the proposed change in ownership, the new owner should contact the appropriate DEC branch to request applications and other documents.

Acceptance of liabilities and refund policy

With its application, the school must include a notice that its accreditation is continued under the new ownership or control, and a copy of its State legal authorization under the new ownership. The new owner must agree to be liable for the previous owner's administration of the SFA programs. (Or the new and the old owners may agree to be jointly and severally liable.) This means the new owner must accept liability for any Federal funds given the school that were improperly spent before the effective date of the change of ownership or control. The new owner must also agree to abide by the refund policy that applied to students enrolled before the effective date of the change, and to honor all student enrollment contracts signed before the date of the change.*

New owners should make sure that, before the date of purchase, all students have received their award payments for any payment period that began before the date of purchase, that all student assistance accounts have been closed out, and that all reports have been filed properly. The school should notify all new students that no funds can be disbursed until the school's eligibility is reaffirmed and the new Program Participation Agreement is signed by ED.

Steps to be taken by DEC

Once DEC determines that the school is eligible, it will issue a new Eligibility Notice. At the same time it is considering the school's eligibility, DEC will review the new owner's financial statement. DEC also consults the Division of Program Operations and Systems, the Division of Audit and Program Review (DAPR), and the regional offices to check for potential problems. If DEC certifies the school, the Certification Branch sends the school a countersigned copy of the new Program Participation Agreement and notifies the Division of Program Operations, the regional offices, and the guarantee agencies that the school is certified to participate under the new ownership.

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* The new owner must carry out these steps for the school to be considered the same school as before the change in ownership, for eligibility purposes. If the school is not considered the same school, it must apply as a new school and meet all the applicable requirements for eligibility, including (if applicable) the requirement that the school have been in existence for two consecutive years. If the new owner(s) are guilty of a crime involving the acquisition, use or expenditure of Federal funds, or have committed fraud involving Federal funds, the school *must* apply for eligibility as a new school (see the Eligibility regulations for exceptions (§600.31(d)(2)).

Effective date for program participation

When a new Program Participation Agreement is signed, the new owner ordinarily may disburse SFA funds beginning with the payment period in which the change of ownership takes place — unless DAPR's Program Compliancel Branch terminated the school's participation under the previous owner. If participation was terminated, the new owner may not disburse any funds before the payment period in which the new Program Participation Agreement is countersigned.

There is one exception to this disbursement procedure, however. If the change of ownership or control occurs in one award year and the date the Department of Education countersigns the new Program Participation Agreement occurs in the succeeding award year, the new ownership may not make Pell Grant or campus-based disbursements for any payment that does not occur at least partially in the succeeding award year.

OTHER CHANGES IN CONTROL

Accountability Regulations

Recent changes to the General Provisions also require that a school report any changes under which an individual or corporation acquires the ability to affect substantially the actions of the school. Such a change must be reported within 10 days of the change; a school owned by a publicly traded corporation must report the change within 10 days after the corporation learns of the change. The regulations were published in the Federal Register on July 31, 1991, and were effective on September 14, 1991. All schools are subject to these requirements, which are enforced during the eligibility and certification process, as well as in the program review and audit requirements. An individual or corporation has the ability to substantially affect the actions of the school when he or she or it—

- personally holds, or holds in partnership with one or more family members*, at least a 25 percent ownership interest in the school;
- personally represents (with voting trust, power of attorney, or proxy authority), or represents in partnership with one or more family members, any individual or group holding at least a 25 percent ownership interest in the school;
- is the school's chief executive officer (or other executive officer) or a member of the school's board of directors; or
- is the chief executive officer (or other officer) for any entity that holds at least 25 percent ownership interest in the school, or is a member of the board of directors for such an entity.

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* A family member is defined as a parent, sibling, spouse, or child; a spouse's parent or sibling or a child's spouse.

Ownership Interest— a share of the legal or beneficial ownership or control of the school or parent corporation, or a right to share in the proceeds of the operation of the school or parent corporation.

The regulations [34 CFR Part 600.30(e) and 668.13(i)] include examples of ownership interest as an interest as tenant, joint tenant, or tenant by the entities, a partnership, and an interest in a trust. The regulations specifically exclude from the term the proceeds of the operation of a mutual fund that is regularly and publicly traded, an institutional investor, or a profit-sharing plan that covers all employees.

Reporting procedures

To ensure that its eligibility will not be jeopardized, the school must report the change (including the name(s) of the person(s) involved) to DEC. Upon receipt of this notification, DEC will investigate the possibility of the named person(s) had the ability to affect substantially the actions of any closed schools that formerly participated in the SFA programs. If no connection is found, DEC will notify the school that its financial responsibility for participating in the SFA programs is not in question.

If DEC finds that the named person(s) was connected with a closed school that formerly participated in the SFA programs, the school may be required to take corrective action. DEC will require corrective action in the following case:

- the named person (or a member of the person's family) had, in accordance with the definition discussed above, the ability to substantially affect the actions of the closed school within 90 days of its closing
- the closed school (or the person or a family member) owes liabilities on Title IV funds or refunds
- those liabilities are not being properly repaid

If notified by DEC that such a situation exists, the school must take the appropriate corrective steps, as specified in the regulations. If the school is unwilling or unable to correct the violation, DEC will refer the school to DAPR for appropriate fine, limitation, suspension or termination action.

Adding locations and extensions

The Institutional Eligibility Notice that the Department sends to the school sometimes lists the educational programs and locations which have been determined to be eligible. (The eligibility of a school and its programs does not automatically include separate locations and extensions.) If education services are provided at other locations that are not listed in the school's Eligibility Notice, or if the school adds other locations after it receives the Notice, the school must request a determination of eligibility and certification for these other locations.

Acquiring a previously closed school

For a location to be added, it must meet all the institutional eligibility requirements, except the two-year rule. (See Section One.) If a proprietary institution of higher education, a postsecondary vocational institution, or a vocational school attempts to acquire as a branch campus a closed school (or any of its branches), and that closed school owes HEA refunds or liabilities that are not being properly repaid, the acquiring school must either assume responsibility for those liabilities or wait two years for that additional location to become eligible as a branch campus. (This applies to *any* acquisition of the closed school's assets, even an indirect acquisition.) If an eligible institution offers an educational program in its entirety at any other location other than the main campus, it must submit a completed application to ED for approval to include that location in its eligibility status.

A school that is adding a location must notify the accrediting body, State licensing agency, and DEC of the addition. When it notifies DEC of the change, the school must send a completed ED Form E-40-34P (Application for Institutional Eligibility and Certification), a copy of the accrediting agency's notice certifying that each location is included in the accredited status, and a copy of the State legal authorization from each State in which the school is physically located. The State authorization must show that each site is legally authorized.

Revised eligibility and new certification

DEC reviews the information received, evaluating financial responsibility and administrative capability, as well as the school's eligibility. If it approves the additional location, it issues a revised Notice to the school to include all eligible locations that meet all the eligibility requirements. Depending upon the circumstances, the Institutional Review Branch of DAPR may conduct an on-site review. After DEC certifies an additional location and signs a new Program Participation Agreement, the school may disburse funds to students enrolled at that location.

If a school adds other educational *programs* after receiving the Notice, it may make its own determination as to whether these programs are eligible for SFA funds, without submitting an application to the Department. However, the school will be held liable for any SFA funds it received or expended for students in the program if it erroneously determines that the educational program is eligible. The additional educational programs will be reflected in the school's eligibility when the school renews its eligibility. Approvals from both the State and accrediting agencies will be required if the agencies have requirements for approving additional programs.

OTHER SUBSTANTIVE CHANGES

Name and address changes

Eligibility does not automatically continue if a school changes, for example, its name, address, or level of offering. A school must notify DEC when any of the following information given in the Application for Institutional Eligibility changes:

- The name of the school
- The address of the school
- The name, number, and address of locations other than the main campus
- The method of measuring educational programs (e.g. clock hour to quarter hours)

New written agreements

The school must also notify the Department when it establishes new written agreements with ineligible schools or organizations that will provide more than 25 percent of an educational program (as described in Section Five of this chapter). The school must notify DEC at the same time as it notifies its accrediting agency or association, but within at least 10 days of one of these changes.

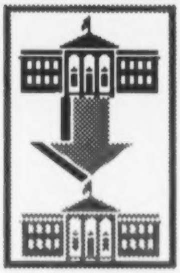
Review of changes by DEC

A school that has made such a change should request DEC to review the school's eligibility. DEC will notify the school of the information it must provide. Among other items, the school must send DEC a new Application for Institutional Eligibility and Certification showing the change. After receiving the required documents, DEC will reconfirm the school's eligibility by sending an Eligibility Letter, if warranted.

Review of changes in accreditation

Changes in accreditation may also affect a school's eligibility to participate in the SFA programs. New legislation states that the Department will not recognize the school's accreditation if the school is in the process of receiving new accreditation or changing its accrediting agency or association, unless the school submits to the Department all materials relating to the prior accreditation, including materials demonstrating reasonable cause for changing accrediting agencies.

REQUIREMENTS WHEN A SCHOOL LOSES ELIGIBILITY



Steps to be taken when school loses eligibility

A school loses its eligibility to participate in the SFA programs when it no longer meets the requirements of 34 CFR Part 600, and when the Department terminates the school under Subpart 6 of the General Provisions. The school (or one of its eligible locations) also loses its eligibility when it stops providing educational instruction or decides to close for other reasons.

Schools with high default rates are particularly at risk of losing their eligibility. In fact, many schools with high default rates have recently withdrawn voluntarily from the guaranteed student loan programs. Participating schools wishing to withdraw from the loan programs must notify the Department. For more information on the requirements and procedures, contact the Default Management Section at (202)708-9396.

When a school loses its eligibility, the school must immediately notify the Department and comply with the following minimum requirements (recently amended through General Provisions published July 19, 1991):

- Submit to the Department within 45 days after the effective date of the closing or loss of eligibility all financial, performance, and other reports required by each appropriate SFA program regulation, and a letter of engagement for an independent audit of all SFA funds it received. (The completed audit report must be submitted to the Department within 45 days after the date of the letter of engagement.)
- Report to DEC on the arrangements for retaining and storing (for a minimum of five years) all records concerning the administration of the SFA programs. (See Section Three for specific retention requirements.)
- Tell the Department how it will provide for collecting any outstanding SFA student loans.
- Refund unearned tuition and fees. (See Section Four for more information on refunds.)

In addition, a school that closes must refund to the Federal Government, or otherwise dispose of (by written instruction from the Department) any unexpended SFA funds it has received, except its administrative allowance, if applicable. The school must also return to the appropriate lender any loan proceeds the school has received but not delivered (or credited) to students.

If a school loses eligibility during a payment period (or enrollment enrollment for the guaranteed student loan programs) but continues to provide education in the formerly eligible programs until the end of the payment or enrollment period, the school may—

◆ use SFA funds in the school's possession to satisfy unpaid Pell Grant or campus-based commitments made for that payment period prior before the loss of eligibility (the school may request additional funds from the Department); and

◆ satisfy any unpaid Stafford or SLS commitment made to a student for that period of enrollment by deliverying subsequent Stafford or SLS disbursements to the student or by crediting them to his or her account (if the first disbursement was delivered or credited before the school lost eligibility).

Contact the ED regional office staff for guidance in fulfilling these requirements and responsibilities.

LOSS OF ACCREDITATION

School may not be recertified for two years

As mentioned earlier, a school that loses its accreditation is no longer eligible to participate in the SFA programs. Recent legislation specifies that the Department may not certify or recertify a school to participate in the SFA programs for two years after the school has had its accreditation withdrawn, revoked, or otherwise terminated for cause, or after the school has voluntarily withdrawn from its accreditation under a show cause or suspension order.

Exceptions:

Accreditation restored

If the school's accrediting agency restores the school's accreditation during the two-year period, the Department may recertify the school to participate in the SFA programs, but the school must submit an Application for Institutional Eligibility and Certification. However, the school may not be recertified based on accreditation granted by a different accrediting agency during the two-year period.

Alternatives to accreditation

The Department does have the authority to recertify a school that has lost its accreditation in the previous two years if it determines that the school has demonstrated academic integrity by obtaining pre-accredited status (as defined in 34 CFR Part 600.2) or by meeting the transfer-of-credit alternative to accreditation (34 CFR Part 600.8).

Note that it is possible for accreditation to be withdrawn for one of the programs at the school, without affecting the accreditation (and eligibility) of the other programs at the school. (As discussed earlier in this section, changes in accreditation may jeopardize a school's eligibility.)

CORRECTIVE ACTIONS AND SANCTIONS*

Corrective action will be taken against any school that—

Actions due to program violations or misrepresentation

1. Violates the law or regulations governing the SFA programs, the Program Participation Agreement, or any other agreement made under the law or regulations.
2. Substantially misrepresents the nature of its educational program, its financial charges, or the employability of its graduates. (For more information on misrepresentation, see Section Eight.)

If it appears that a school has committed one of the above violations, the Office of Student Financial Assistance may first allow the school to respond to the problem and indicate how it will correct it. If these informal means to correct the situation fail, or if the school has repeatedly violated the law or the regulations, the Department of Education will initiate a limitation, suspension, or termination of participation procedure. It may also fine the school or take an emergency action.

Actions due to loss of eligibility

The statute also gives the Department the authority to take emergency action against, or terminate a school or a program that no longer meets the eligibility criteria given in Section One of this chapter. For details on steps that a school should follow in any of these situations, see Subpart G of the General Provisions, as published in the December 1, 1986, and August 7, 1990 **Federal Registers**.

Emergency action

The Department may take emergency action to withhold SFA funds from a school or its students if the Department receives information, determined by an ED official to be reliable, that the school is violating applicable laws, regulations, special arrangements, agreements, or limitations. To take emergency action, the official must determine that the school is misusing Federal funds, that immediate action is necessary to stop this misuse, and that the potential loss outweighs the importance of using the established procedures for limitations, suspensions, and terminations. The school is notified by registered mail of the action and the reasons for it. The action becomes effective on the date the notice is mailed.

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* In addition to the penalties the Department may impose against a school, an individual is subject to a fine, or imprisonment, or both if he or she misappropriates SFA funds, destroys or conceals any financial aid record relating to an SFA program, illegally pays an eligible lender as an inducement to make or acquire a guaranteed loan, or gives false information or conceals information concerning the assignment of an SFA loan.

Emergency action suspends the school's participation in all SFA programs and prohibits the school from disbursing SFA funds or certifying guaranteed student loan applications. The action may not last more than 30 days, unless a limitation, suspension, or termination proceeding is begun during that period. In that case, the emergency action is extended until the proceeding, including appeal, is concluded. The school is given an opportunity to "show cause" that the action is unwarranted.

Fine

The Department may fine an institution up to $25,000 for each statutory or regulatory violation. (The Department first notifies the school of the intent to fine so that the school can request a hearing, if it chooses.) If the school is proven guilty of violations, it may appeal to the Department for a compromise on the amount of the fines imposed at the hearing. In determining this amount, the Department will consider the school's size and the seriousness of its violation or of its misrepresentation.

Limitation

A limitation means that a school has agreed to abide by certain specific conditions or restrictions in its administration of SFA funds, so that it can continue to participate in any SFA program. A limitation lasts for at least 12 months. If the school fails to abide by the limitation's conditions, a termination proceeding may be initiated.

Suspension

A suspension removes a school's participation in the SFA programs for a period not to exceed 60 days, unless a limitation or termination proceeding has begun. Suspension actions are used when a school can be expected to correct a program violation in a short time.

Termination

A termination ends a school's participation in the SFA programs. Participants who have violated the law or regulations governing the SFA programs, their Program Participation Agreement, or any other agreement made under the SFA regulations may not be reinstated for at least 18 months, even if the school changes ownership during that time. After 18 months have passed, the school may request reinstatement from the Department of Education.

If a school is terminated because it substantially misrepresented the nature of its educational programs, its financial charges, or the employability of its graduates, it may not be reinstated for at least three months, even if it changes ownership.

Reinstatement

The reinstatement request must be in writing and must show that the school has corrected the violation(s) on which the termination was based including repayment of all funds (to the Department or to the eligible recipients) that were improperly received, disbursed, caused to be disbursed, or withheld. To be reinstated, the school must demonstrate that it meets the standards in Subpart B of the General Provisions (discussed in Section One), and enter into a new Program Participation Agreement.

Within 60 days of receiving the request for reinstatement, the Secretary of the Department of Education must either grant the request, deny the request, or grant the request subject to limitations.

Repayment of funds to student or ED

As part of any fine, limitation, suspension, or termination proceeding, the Department may require the school to take corrective action. This action may include making payments to eligible students or repaying any illegally used funds to the Department of Education. The Department may offset any funds to be repaid against any benefits or claims due the institution.

United States
Department of
Education

Office of
Student Financial
Assistance

The Federal Student Financial Aid Handbook, 1992-93

Chapter 4

Pell Grant Program

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INTRODUCTION AND PROGRAM UPDATE

This chapter of the *Federal Student Financial Aid Handbook* describes how a school calculates and pays Pell Grant awards to eligible students and how it reports those payments to the Office of Student Financial Assistance (OSFA).

The discussion covers what the school must do after the student has submitted a valid Student Aid Report (SAR) with an eligible Pell Grant Index (PGI). If you want to know more about the application process or verification procedures, please refer to the 1992-93 *Counselor's Handbook for Postsecondary Schools* or to the 1992-93 *Verification Guide*. If you want to know how the Pell Grant Index is calculated, you may wish to consult *The Pell Grant Formula*.

This chapter is divided into sections covering the basic steps in the Pell Grant award process at the school: confirming student eligibility, calculating the award, making a disbursement, recalculating the award (if necessary), collecting overpayments, and reporting expenditures to the Department. There is a separate section for calculation procedures in special programs, such as programs of correspondence study or programs with non-standard terms.

UPDATES

- For the fourth consecutive year, the financial aid administrator's authority to adjust the student's Pell Grant Index or the cost of attendance has been rescinded. As was true for 1991-92, if the student (or parents of a dependent student) meets a defined special condition, expected year income will be used instead of base year income to calculate the Pell Grant Index. The special conditions and the calculation procedures are explained in detail in *The Pell Grant Formula.* (The special conditions are the same as those in effect for 1991-92.) Information on how to file for a special condition is included in the 1992-93 *Counselor's Handbook for Postsecondary Schools.*

- As was true for 1991-92, less-than-half-time students are not eligible for Pell Grants.

federal register
11/6/91
Part II
Department of Education

- The final regulation published in the FEDERAL REGISTER on November 6, 1991, making several changes to the Pell Grant Program, is nearly identical to the Notice of Proposed Rulemaking (NPRM) published in the REGISTER on September 12, 1990. The one major difference concerns a valid ESAR: A parent's or spouse's signature is required in addition to the student's signature only if the ESAR reflects corrections from the original application. If no corrections are made, only the student's signature is required for the ESAR to be valid. (In the NPRM, one parent's signature—and the signature of the spouse, if the student is married—would have been required in every case.) Areas of this chapter affected by the final regulation will be marked by the symbol in the left margin and the change noted.

- Any funds a student may receive from the National Science Scholarship Program may never be adjusted to prevent an overaward. Therefore, if necessary, **a Pell Grant may have to be adjusted.** See Section Six, page 4-65.

- Beginning in 1992-93, the Pell Grant Disbursement System is tracking the Pell Grant eligibility of students who receive their first Pell Grant in 1987-88 or later. Schools will still be responsible, however, for tracking a student's eligibility. For more information on duration of eligibility, see Section One.

- The pre-award Institutional Payment Summary (IPS) has been eliminated. Schools may use the regular IPS to establish cost categories. See Section Seven for more information.

- The Student Payment Summary discussion in Section Seven has been expanded.

SECTION ONE: STUDENT ELIGIBILITY

Unlike the campus-based programs (see Chapters 5—8 of this *Handbook*), a student's eligibility for a Pell Grant does not depend on the availability of funds at the school. The Department provides funds to each participating school to pay eligible students based on the Student Aid Reports submitted to that school. The funding process is discussed in Section Seven of this chapter.

Because the Secretary pays Pell Grant awards to all eligible students, the school is not responsible for selecting Pell Grant recipients. However, the school must ensure that each recipient meets the eligibility requirements for the Pell Grant Program, as discussed below.

GENERAL ELIGIBILITY REQUIREMENTS

Most of the student eligibility requirements for the Pell Grant Program are common to all the student financial assistance (SFA) programs. (An exception is the requirement, for Pell eligibility only, that a student must sign an Anti-Drug Abuse Act Certification. This Certification is discussed in Chapter Two, Section One.) General SFA eligibility requirements are discussed in greater detail in Chapter Two, Section One. Briefly, for a student to be eligible to receive assistance from the SFA programs, he or she must—

- be either a U.S. citizen or an eligible non-citizen.
- have a high school diploma or its recognized equivalent (or be above the age of compulsory school attendance in the State where the school is located). An alternative, which is acceptable for all SFA programs except the Supplemental Loans for Students (SLS) Program, is for the student to have passed an independently administered test approved by the U.S. Department of Education. For more information, see Chapter Two, Section One.

- be making satisfactory progress in his or her course of study.
- file with the school a Statement of Educational Purpose, a Statement of Selective Service Registration Status, and a Certification Statement on Refunds and Defaults. (These statements are discussed in Chapter Two, Section One.)

A student is *not* eligible for any SFA funds if he or she—

- is enrolled in an elementary or secondary school.
- is in default on an SFA loan or owes a refund on an SFA grant.
- has borrowed in excess of the annual or aggregate loan limits for the SFA loan programs.

In most cases, if a student is a member of a religious order, he or she is eligible ***only*** for a Stafford Loan, PLUS, or SLS. (For more information, see Chapter Two, Section One.)

Financial aid transcript

If a student transfers from one postsecondary school to another within the award year, the student must arrange to have the previous school(s) send a financial aid transcript to the new school. See Chapter Three, Section Three of this *Handbook* for a discussion of the financial aid transcript.

PELL GRANT ELIGIBILITY

Pell Grant Index

To be eligible for a Pell Grant, a student must have an eligible Pell Grant Index (PGI). This number is an index of the student's ability to contribute to the cost of education. Thus, the neediest students will have a PGI of 0 and may be eligible for the maximum award if their cost of education (also known as cost of attendance) is high enough.

EXAMPLE

1992-93 Scheduled Awards based on a cost of attendance of at least $4,000.
(EXAMPLE ONLY—DO NOT USE TO MAKE AWARDS)

PGI	0	300	600	900	1200	1500
Award	2400	2150	1850	1550	1250	950

As the PGI increases, the Scheduled Award decreases.

As the PGI increases, the amount of the award decreases, and after a certain point, the award becomes 0. For the 1992-93 award year, that PGI cutoff point is 2200.

Student Aid Report

The PGI is printed on the Student Aid Report, which is the official notice of the student's eligibility (or ineligibility) for a Pell Grant. The PGI is computed by the Central Processing System in Iowa and is based on the information reported by the student on the financial aid application. Depending on the application the student filed, either the student's MDE or the AFSA processor sends the Student Aid Report directly to the student. (For more information on SAR processing and production for 1992-93, see the 1992-93 *Counselor's Handbook for Postsecondary Schools.*) To be paid a Pell Grant, the student must submit the SAR to the school while the student is enrolled and eligible. The school must retain a copy of the SAR (Part 1 and the Processed Part 3) for each student to whom it pays a Pell Grant.

INSTITUTIONAL ROLE

Although the PGI is computed by the Central Processing System, and recipients are in effect selected through the use of the Pell Grant formula and use of the Payment Schedule, the school's role in the eligibility process is nevertheless very significant.

Independent student determination

For example, the school may make a documented determination that a student is independent due to circumstances other than those specified in the law. This is known as the "dependency status override" (see the 1992-93 *Counselor's Handbook for Postsecondary Schools*).

Verification

Another area of responsibility for schools is verifying information on the student's financial aid application, a process that began in the 1978-79 award year. If the PGI on the Student Aid Report has an asterisk next to it, the school must verify the student's information in accordance with the regulatory requirements, unless the 30 percent verification limit has been exceeded (see the *Verification Guide* or Subpart E of the General Provisions regulations). In most cases, the student is required to submit IRS forms to verify his or her own income and the income of his or her spouse (and parents, if the student is dependent). During the course of verification, if the school discovers an error on the Student Aid Report, the school may use the recalculation option described in Section Four of this chapter to make a first payment to the student while the corrected SAR is being reprocessed. Other payment options, including the use of tolerances and the Zero PGI charts, are described in the *The Verification Guide, 1992-93.*

UNDERGRADUATE STUDENT

A student must be an undergraduate student to receive a Pell Grant. The regulations define an undergraduate as one who is enrolled in an undergraduate course of study, and who has not earned a baccalaureate or first professional degree.* (By "professional degree," we mean degrees offered by professional programs such as pharmacy, dentistry, or veterinary programs.)

Length of undergraduate study

An undergraduate course of study under this definition is one that usually does not exceed four academic years, or that is a program of four to five academic years designed to lead to a first degree. If the program is longer than five years (for example, a six-year pharmacy program), then students enrolled in that program are considered undergraduate students only for the first four academic years of the program.

Degrees at less than the baccalaureate level

Note that a student who has already received an associate's degree, but who enrolls in another undergraduate program, would continue to be considered an undergraduate student until he or she has completed the academic curriculum requirements for a first bachelor's degree. (This is true for *any* student who has received a certificate or diploma at less than the baccalaureate level.)

DURATION OF ELIGIBILITY

Limit on duration of eligibility

Exceptions to the limit

The duration of a student's eligibility is defined in the Pell Grant regulations as the period of time required for the student to complete the first undergraduate baccalaureate course of study. However, beginning with the 1987-88 award year, eligibility for students who receive a Pell Grant for the first time is ***limited to*** five academic years for students enrolled in undergraduate programs requiring four years of study or less. If the program requires more than 4 academic years of study, Pell Grant eligibility is limited to six academic years.** The school may waive these limits for a student who was not able to make satisfactory progress because of undue hardship. The law specifically mentions cases where a relative of the student dies or the student becomes injured or ill, but also includes any other special circumstances as determined by the school.

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*Occasionally, a student will complete the requirements for a bachelor's degree but will continue taking undergraduate courses without accepting the degree. The school must decide at what point it considers the student to have completed the baccalaureate course of study—when the student completes the requirements for the degree, or when the student actually receives the degree. If the school considers the student to have completed the baccalaureate course of study, the student is no longer eligible to receive a Pell Grant.

The limit to the number of years a student may receive a Pell Grant should not be confused with the length of a ***program* that is considered to be an undergraduate program, as described above.

Note that the length of the student's eligibility is not affected by active duty service in Operation Desert Shield/Desert Storm.

Additional exceptions

Non-credit and remedial coursework taken by the student is also not counted toward the five- or six-year limits. However, there is a separate, one-year limit on the amount of non-credit or remedial coursework for which the student may receive SFA program funds. (See "Remedial Coursework" in Section Three of this chapter.)

Department monitors eligibility

In 1992-93, the Department begins using the Pell Grant Disbursement System (see Section Seven for a description of this system) to track the Pell eligibility of students who receive their first Pell Grant in 1987-88 or later. Students who have received at least four years of Pell Grants, but less than five years, will receive a comment on their SAR's warning them that this may be their last year of eligibility and specifying the number of years of Pell Grants they have received. All students who have received five or more years of Pell Grants are assumed to be ineligible for further Pell Grants. They will receive a SAR without a PGI in the upper right corner, and without a Payment Voucher, but with all the other information normally provided, including a Family Contribution (FC). A "pseudo PGI" will be provided in the comments, as will the number of years of Pell Grants the student has received.

Measuring eligibility

The Disbursement System measures Pell eligibility at each school the student may have attended by comparing the actual disbursement (as reported on the Payment Voucher or in the automated payment record) to the student's Scheduled Award at that school:

$$\frac{\text{Box 6 (Amount Paid to Date)} + \text{Box 7 (Remaining Amount to be Paid)}}{\text{Scheduled Award}} = \text{Percentage used (to the third decimal place—.000)}$$

For example, for 1992-93, Art attends full time at a semester school and has a Scheduled Award of \$2,130. He has received one disbursement. What percentage of Pell eligibility will he use for 1992-93?

$$\frac{\$1{,}065 \text{ (Box 6)} + \$1{,}065 \text{ (Box 7)}}{\$2{,}130} = 1.0$$

In a different situation, suppose that Art attends full time the first semester and has a Scheduled Award of \$2,130. But, in this case, he drops to half time in his second semester. He would receive only \$533 for the second semester (rounded up from \$532.5), and would use only three-fourths of a year of Pell eligibility for 1992-93:

$$\frac{\$1{,}065 \text{ (Box 6)} + \$533 \text{ (Box 7)}}{\$2{,}130} = .750$$

The sum of each percentage used from each school the student attends will give the total number of academic years for which a Pell Grant was received. Let's see how that might work for a transfer student:

In the 1992-93 award year, Gary goes to School A, a semester school, as a full-time student. He is to receive a $1,530 Scheduled Award, but he drops to three-quarter time in the second semester. The next year, Gary enrolls full-time in a clock hour program at School B. His Scheduled Award is $2,400, and his school has a 900 hour academic year with 3 payment periods of 300 hours each. Gary drops out at the beginning of the last payment period. What percentage of Pell eligibility has he used at the end of his second academic year of school?

1992-93

$$\frac{\$765\text{ (Box 6)} + \$574\text{ (Box 7)}^{*}}{\$1{,}530} = .870$$

1993-94

$$\frac{\$1{,}600^{**}\text{ (Box 6)} + \$0\text{ (Box 7)}}{\$2{,}400} = \underline{.666}$$

$$.870 + .666 = 1.536$$

Gary has used 1.536 years of Pell eligibility after two years of school.

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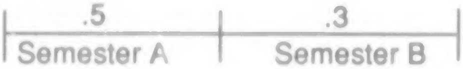
[*] Gary received one-half of his Scheduled Award ($1,530) in his first semester, which gave him $765. In his second semester, he received half of his three-quarter-time award ($1,148), which gave him $574. (See page 4-27 for more information on calculating a payment for a payment period.)

[**] Using the non-term program payment calculation formula (see page 4-30):

$$\$2{,}400 \times \frac{300\text{ hrs. in payment period}}{900\text{ hrs. in academic year}} = \$800 \times \text{two payment periods} = \$1{,}600$$

Less than one year of eligibility remaining

Note that students with less than one year of eligibility remaining must be paid the full calculated award for each payment period until the eligibility is reached. For example, if the student has used 4.2 years of Pell eligibility and will be enrolled full time in a two-semester program, you must divide the remaining .8 years of remaining eligibility as follows:



Do not divide the remaining .8 year by the two payment periods.

School responsible for tracking eligibility

NOTE: The school is ultimately responsible for determining whether students have reached the eligibility limit because the tracking system will not be accurate in all cases. Schools may have information in their records that shows the student has remaining eligibility, although the tracking system has flagged the student as ineligible. Or, schools may have information that the student's eligibility limit has been reached, even though the tracking system does not have this information. **Examples of both situations are given on the next few pages.**

Examples of discrepancies in eligibility

Student's Eligibility Has Been Reached—Tracking System Shows Student is Eligible: School Must Withhold Payments

1. The Disbursement System tracks the student by the **current** Social Security Number (SSN) on the **latest** transaction submitted for that SSN. Therefore, if the student reports his or her SSN incorrectly when applying for aid one year and then reports a corrected SSN when applying the next year, the two numbers may never be reconciled and the payments for the student will not be accurately recorded.

2. Any payments made or recorded after the SAR is produced that could exhaust the student's remaining eligibility obviously would not be counted.

Student Has Remaining Eligibility—Tracking System Shows Student is Ineligible: School Must Override Eligibility

1. The Disbursement System cannot separately identify non-credit or remedial coursework and therefore cannot exclude such courses from consideration.

2. Periods of service in Operation Desert Shield/Storm do not count toward the student's eligibility limit.

3. Adjustments to disbursements because of program reviews and audits and adjustments occurring after September 30 (the new deadline for submitting all Payment Vouchers for an award year) cannot be entered into the tracking system.

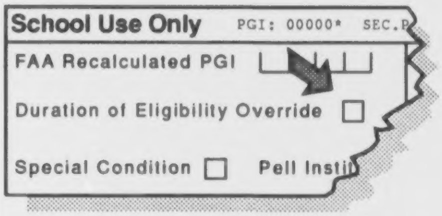
4. Refunds will not be reflected in the eligibility calculation if they are reported after the Pell Grant reporting year (that is, after the September 30 deadline).

5. Students enrolled in a program requiring more than 4 years to complete have a 6-year eligibility limit. However, the SAR will indicate that these students are ineligible after receiving 5 years of Pell Grants because the Disbursement system does not have information on which students are enrolled in the longer programs.

NOTE: In addition, you can use professional judgment to override when special circumstances, such as illness or the death of a relative, may have caused the student to fall behind in his or her coursework.

Override procedures

To do an override of the student's eligibility status on either the SAR or the Correction AFSA, check the box in the School Use Only box, as shown below:



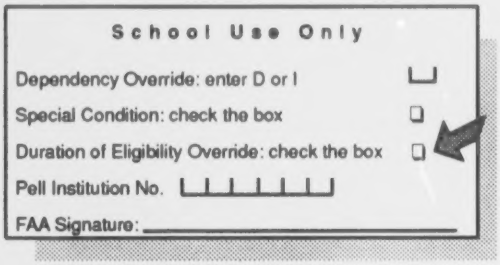
School Use Only PGI: 00000* SEC.P

FAA Recalculated PGI

Duration of Eligibility Override ☐

Special Condition ☐ Pell Insti

SAR



School Use Only

Dependency Override: enter D or I

Special Condition: check the box ☐

Duration of Eligibility Override: check the box ☐

Pell Institution No.

FAA Signature: ____________________

Correction AFSA

You must, of course, document in the student's file the reason for the override. Because of the override, you can make a first payment of a Pell Grant based on the pseudo PGI provided in the comment section on Part 1 of the SAR, but your school would be liable for this amount if the student does not submit a reprocessed SAR with a valid PGI.

Occasionally, you may have a transfer student who says he or she is eligible, although the SAR says otherwise. In this case, the burden of proof is on the student. The financial aid transcript may not be adequate proof, as it covers only one award year. The student must obtain some type of proof, such as an academic transcript showing that the student took remedial work or that the student had to withdraw, for example. You may request this proof on the student's behalf, if you choose.

Examples: eligibility limit has been reached —school must withhold payments

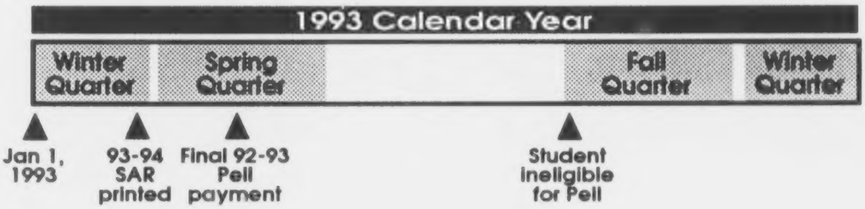
1 different Social Security Numbers

John K. is entering his sixth year at Othello State University. According to his Student Aid Report, he has only used 4 years of Pell eligibility. However, the financial aid administrator has documentation in John's file explaining that the wrong Social Security Number is printed on John's 1989-90 Student Aid Report (either because of a keypunch error or because John misreported the number). How does this information affect John's Pell eligibility?

The Pell Grant Disbursement System cannot always consolidate Pell Grant Payments made to a student under different Social Security Numbers, even if the Social Security Number was corrected on a later SAR within the award year. The financial aid administrator must review John's file to determine if John has reached the eligibility limit. To determine how much Pell Grant assistance John received in 1989-90, the aid administrator must compare the amount John received with his Scheduled Award for 1989-90. (John's Scheduled Award, as well as the amounts paid, are printed on his Processed Payment Document for 1989-90.) If John had a Scheduled Award of $2,100, but was only paid $1,050 as a half-time student, he would only have used .5 of a year of Pell eligibility in 1989-90. This would mean that he could still receive one-half of a Scheduled Award before reaching the eligibility limit. On the other hand, if he had received the full Scheduled Award for 1989-90, as well as the four full years of Pell Grant assistance recorded on the SAR, he would be ineligible for further Pell Grant assistance.

2 next year's SAR generated before current award year ends

Paula H. applies in January of 1993 for her sixth year of study at Woodbine College, which uses a quarter system. According to the 1993-94 Student Aid Report she receives in February, she has only used 4.666 years of Pell eligibility. However, when Paula brings the SAR to the aid office, the aid administrator recognizes that the tracking system would not have recorded the last of Paula's three 1992-93 Pell Grant payments at the time the SAR was printed.



If Paula receives an additional full-time disbursement for the Spring Quarter at Woodbine, she will have received 5 full years of Pell Grant assistance and will not be eligible for payment in 1993-94 and subsequent award years. (Note that she would also be ineligible for Pell if she attended a Summer Quarter.)

Examples: student has remaining eligibility —school must override eligibility . . . .

1 excluding remedial coursework

Cheryl L. is entering her sixth year at Emerald State University. She receives a Student Aid Report that shows she has already received five full Pell Grant awards. However, in checking Cheryl's file for 1987-88, the financial aid admiinistrator notices that 6 of Cheryl's 15 credits in her first semester and 3 of her 9 credits in her second semester were remedial coursework.

The Disbursement System shows that Cheryl received $1,837 of her $2,100 Scheduled Award for that year ($1050 for first semester and $787 for second semester). Thus, the Disbursement System shows that she used .875 of a Scheduled Award in 1987-88.

The aid administrator calculates the amount of Pell Grant that Cheryl received for regular coursework for the year, excluding remedial coursework. (The minimum full-time enrollment status at Emerald State is 12 credit hours, and its academic year is defined as two semesters.)

$$\left(\frac{\text{Credit hours for regular coursework during first term}^{*} + \text{Credit hours for regular coursework during second term}^{*}}{\text{Minimum full-time courseload for academic year}} = \text{Percentage of Pell eligibility used for regular coursework}\right)$$

$$\frac{9+6}{24} = \frac{15}{24} = .625$$

The difference between the Disbursement System's figure (.875) and the aid administrator's figure (.675) is .250. Thus, Cheryl has remaining eligibility for an additional .25 of a Scheduled Award in her final year. The aid administrator must indicate that an override is being used in the "School Use Only" box on the SAR, and send the SAR back for reprocessing and calculation of an official PGI. (In the meantime, the aid administrator may use the PGI printed in the comments section of the SAR to make a first payment to the student.)

* If the credit hours of remedial coursework for term exceeds the minimum full-time courseload for the term, use the full-time minimum instead. For instance, if Cheryl had taken 15 credit hours in the first term, only count 12 hours, since she received a full-time Pell payment for those hours.

② students called to duty for Desert Shield/Storm

Joe M. is entering his sixth year at Cuse University. He receives a Student Aid Report that shows he has already received 4.8 academic years worth of Pell Grant awards. Based on this information, Joe would only be eligible for a portion of his full-time disbursement for the Fall semester. However, Joe has additional eligibility because he was called to active duty during the Fall 1990 semester to serve in Operation Desert Shield.

At the time he was called up, Joe had already received a $1,200 Pell Grant disbursement for the Fall semester (out of a total Scheduled Award of $2,400). The University calculated a tuition and fee refund for Joe based on its refund policy, and $200 of that refund was returned to the Pell Grant account. How should the aid administrator calculate Joe's additional Pell Grant eligibility?

$$\left(\frac{\text{Amount of Pell paid for term (less any refund made to Pell account)}}{\text{Scheduled Award}} = \text{Additional Pell eligibility (as percentage of Scheduled Award)}\right)$$

$$\frac{\$1,000}{\$2,400} = .417$$

Joe is eligible for an additional .417 of a Scheduled Award. Note that the aid administrator does not have to indicate that an override is being authorized, since Joe's SAR indicated that he still had remaining Pell eligibility. The University may pay Joe a full-time Pell disbursement for the Fall term, leaving Joe with remaining eligibility for .117 of a Scheduled Award.

Note that Joe may be paid the award even if it is less than $200. For instance, if Joe's Scheduled Award is $1,000, the school may only disburse $117 for the second semester because of the duration of eligibility limit. The $200 minimum for Pell Grant awards only applies to the *Scheduled Award,* not to the disbursed amount or to an amount that has been reduced because of an eligibility limit.

... student has remaining eligibility (continued)

3 4 program review/audit adjustments or refunds made after the Pell reporting deadline

Julie L. is entering her sixth year at Longhorn University. Her Student Aid Report shows that she has received five full years of Pell Grant assistance. However, the school's records indicate that, based on a program review finding in 1991, her 1989-90 award was reduced by $800. (In 1989-90, Julie received disbursements of $1,200 from her $1,600 Scheduled Award). This adjustment is not reflected in the total Pell eligibility shown on the SAR, because the deadline for submitting adjustments to 1989-90 awards was December 31, 1990. (Beginning with 1991-92 Pell Grant awards, the reporting deadline will be moved to September 30.)

The aid administrator performs the following calculation, which shows that Julie has additional eligibility for one-half of a Scheduled Award.

$$\left(\frac{\text{Amount returned to Pell account}}{\text{Scheduled Award}} = \text{Additional Pell eligibility (as percentage of Scheduled Award)} \right)$$

$$\frac{\$800}{\$1{,}600} = .500$$

Note that this calculation would also be used if a portion of a refund or repayment had been allocated and returned to the Pell Grant account after the Pell reporting deadline.

5 degree program is greater than 4 years

Frank W. is entering his sixth year at Thomas Jefferson University. Frank is enrolled in a baccalaureate program in Architecture that requires five years to complete. His Student Aid Report shows that he has already received five full years of Pell Grant assistance; therefore, no PGI is printed in the upper right hand corner of the SAR.

Because the degree program takes longer than four academic years to complete, Frank is eligible for one additional academic year of Pell Grant assistance. The aid administrator uses the SAR to override the duration of eligibility limit. (The aid administrator has the option of making a first payment to Frank, using the PGI printed in the comments section of the original SAR, while waiting for the SAR to be reprocessed.)

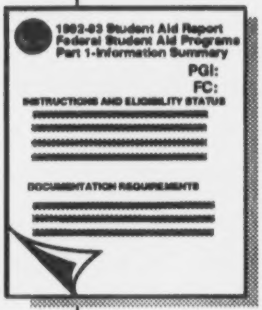
SUBMISSION OF A STUDENT AID REPORT

Deadlines

To establish eligibility for a Pell Grant, a student must submit a valid Student Aid Report (SAR) to the financial aid office within certain deadlines. A valid SAR is defined as one where all the information is complete and accurate as of the date the student aid application was signed.* (For more information on what constitutes a valid SAR, see the 1992-93 *Counselor's Handbook for Postsecondary Schools.*) In most cases, the student must submit the SAR while enrolled and eligible for payment, and no later than the end of the award year (June 30 or, if June 30 falls on a weekend or holiday, the next working day). If the student leaves school or completes the program before submitting a valid SAR, the student is not eligible for a Pell Grant.

Verification extension

This deadline is extended for students who are unable to submit a reprocessed SAR in time because they are undergoing verification. The verification extension gives the student an additional 60 days after his or her last day of enrollment to submit the SAR, not to extend beyond September 1 following the end of the award year. To qualify for this extension, the student must have submitted a SAR with an eligible PGI to the school while the student was enrolled and eligible for payment.


1992-93 Student Aid Report
Federal Student Aid Programs
Part 1-Information Summary
PGI:
FC:
INSTRUCTIONS AND ELIGIBILITY STATUS
DOCUMENTATION REQUIREMENTS

The Student Aid Report consists of three parts, which serve different purposes. ***Part 1*** of the SAR is an eligibility letter to the student, with the student's information printed on the reverse. The school must retain this part in its files.

Part 2 of the SAR is known as the "Information Review Form" or the "Information Request Form" and is used by the student to make corrections, if needed. It is very important that the student review the information on Part 2 of the SAR to make sure it is accurate. Because the information on Parts 1 and 2 can be used to make awards for any of the SFA programs, these two parts are discussed in greater detail in the 1992-93 *Counselor's Handbook for Postsecondary Schools.*

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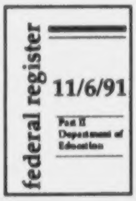
*An "ESAR" (an Electronic Student Aid Report generated by the Electronic Data Exchange and sent to the school) is considered valid as long as the student has signed the Certification statement on Part 2. This signature confirms that the student has reviewed the information for completeness and accuracy. As a result of the 11/16/91 final regulation, a parent's or spouse's signature is required only if the ESAR reflects corrections from the original application.



Part 3 used for Pell payments

If the student has an eligible PGI, the SAR will include ***Part 3***, called the "Payment Voucher." The school fills out the award information on this part and sends it to the Pell Grant Disbursement System. After processing, a new copy of the Payment Voucher is sent to the school for its files. We will discuss how Part 3 of the SAR is used to report expenditures to the Disbursement System in Section Seven of this chapter.

A school may make a first payment to a student before receiving a valid Student Aid Report (SAR), under certain circumstances. For more information, see Section Four of this chapter.

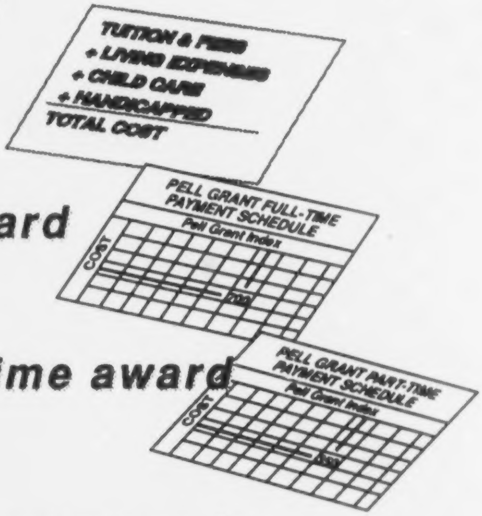
SECTION TWO: CALCULATING THE PELL GRANT

Calculating the Grant: Four steps

Generally, calculating a Pell Grant is fairly simple. Once the cost of attendance has been figured, the student's award can be "looked up" on the Payment Schedule issued by the Department of Education for that year. In fact, at most schools, the only real calculation necessary is to divide the award into the correct amount for each payment period.

There are four basic steps to calculating a Pell Grant award:

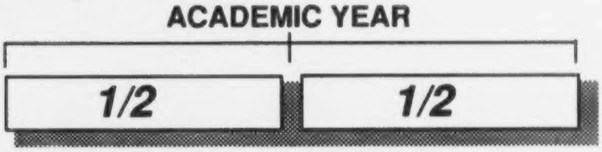
STEP 1 FIGURE COSTS — ***Figure the Cost of Attendance***


TUITION & FEES
+ LIVING EXPENSES
+ CHILD CARE
+ HANDICAPPED
TOTAL COST
PELL GRANT FULL-TIME PAYMENT SCHEDULE
Pell Grant Index
COST
PELL GRANT PART-TIME PAYMENT SCHEDULE
Pell Grant Index
COST

STEP 2 SCHEDULED AWARD — ***Look up the Scheduled Award***

STEP 3 PART-TIME AWARD — ***Look up the part-time award***
(If necessary)

STEP 4 PAYMENT PERIODS — ***Calculate the payment for the payment period***


ACADEMIC YEAR
1/2
1/2

These steps, in effect, adjust the Pell Grant award to take into account the student's cost of attendance, enrollment status, the ability to contribute to his or her education (represented by the PGI), and the amount of coursework taken in the award year.

See Section Three for special calculations

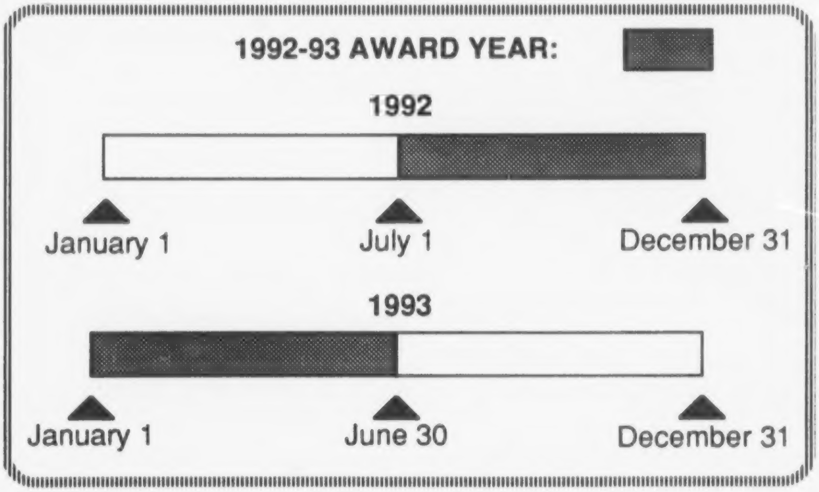
In this section, we will review these basic steps in calculating a Pell Grant award. Pell Grant calculations for most clock hour and credit hour programs can be performed by following these steps. However, there are some relatively unusual programs for which different calculations must be used, such as programs of correspondence study and programs with non-standard terms. These calculations are discussed in Section Three, "Special Program Considerations." Check that section to see if any of the programs at your school require other calculations.

DEFINING "SCHEDULED AWARD," AWARD YEAR, AND ACADEMIC YEAR

The "Scheduled Award" is the amount of a Pell Grant a student receives during an award year for a given cost of attendance and Pell Grant Index (PGI), assuming the student is enrolled full time for a full academic year. For example, a student with a cost of attendance of $6,000 and a PGI of 0 would be eligible for the maximum Scheduled Award ($2,400 for 1992-93). The concept of the Scheduled Award is important because it limits the student to a maximum payment for an award year, based on the PGI and the cost of attendance. The Scheduled Award may not be exceeded, even if the student transfers to another institution or attends a summer session.

Award year

A student may be paid no more than one Scheduled Award for an award year. The award year begins on July 1st of one year and ends on June 30 of the next year.



Note that if the student is enrolled less than full time or is enrolled for less than a full academic year, the student will receive less than a full Scheduled Award. For instance, if a student attends two terms as a half-time student at a credit hour school, the student would receive half a Scheduled Award. Or, if the student enrolled full time in a program late in the award year and only completed half of an academic year in that program, he or she would receive only half of a Scheduled Award.

Defining the school's academic year

The academic year is used to measure the amount of coursework that the student will complete in the award year. A student can be paid for no more than one academic year's worth of coursework in an award year.

Each school defines the length of the academic year for its programs. However, the Pell Grant regulations define the minimum length of an academic year that can be used in Pell Grant calculations:

For a program that uses:	***The academic year must be at least:***
Semesters Trimesters Quarters	2 Semesters 2 Trimesters 3 Quarters
Clock hours	900 Clock hours
Credit hours without terms	24 Semester hours or 36 Quarter hours

Depending on the academic nature of the programs involved, a school may wish to use a different definition of an academic year for different programs. For instance, it may set an academic year of 900 clock hours in one program and 1,200 clock hours in another. The school may even use a different academic year for an evening program, as opposed to a day version of the same program, as long as the definitions meet the minimum requirements for an academic year.

STEP

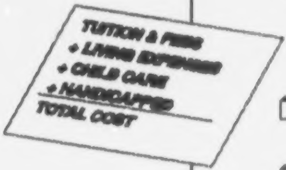
FIGURE COSTS 1

FIGURING THE COST OF ATTENDANCE

The cost of attendance is one of the two numbers you will use to look up the Scheduled Award.* (The other number is the Pell Grant Index, which appears on the SAR.) The cost of attendance is always based on the cost for a *full-time student for a full academic year.* Adjustments for part-time enrollment and for students who attend less than an academic year are discussed later (see Steps 3 and 4).

Components of the Pell Grant cost of attendance

The Pell Grant cost of attendance is restricted to four components:



- tuition and fees
- a limited allowance for living expenses (room and board, books, supplies, transportation, and miscellaneous expenses)
- a limited allowance for child care expenses
- disability-related expenses

The Pell Grant cost of attendance for a student will be different from the cost of attendance used for the campus-based, Stafford, PLUS, and SLS programs, because of the way the allowance for living expenses is set up.** (See Chapter Two, Section Two, for comparison.)

Tuition and Fees

Actual or average

For full-time students, a school may use either the actual or the average amount charged for tuition and fees for a full academic year.

Costs for part-time students

If you pay students based on their enrollment status (that is, in a credit hour program with terms), you will have to use the average tuition charges for full-time students to figure the cost of attendance for part-time students. At schools that charge by the credit hour, the cost for part-time students should be a standard figure based on the cost for the typical hours taken by full-time students at that school. Note that the full-time tuition cost is always based on full-time attendance for a full academic year—the cost is never increased if the student attends an additional session in the summer, or reduced if the student attends only one term.

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*After the student's award has been determined, you will have to report the cost of attendance to the Pell Grant Disbursement System. For more information, see Section Seven of this chapter, "Reporting Expenditures."

**Note that the financial aid administrators' authority to adjust the Pell Grant cost of attendance has again been rescinded for the 1992-93 award year. Financial aid administrators continue to have the authority to adjust the cost of attendance for the other SFA programs to take into account a student's special circumstances.

If tuition and fees are charged to the student for the entire program (as opposed to per term), and the program is longer or shorter than an academic year, the charges must be prorated to establish the student's cost for one full academic year. The same formula works in either case:

FORMULA:

$$\text{Tuition and Fees for Program} \times \frac{\text{Hours in the Academic Year}}{\text{Hours in the Program}} = \text{Tuition and Fees for Academic Year}$$

Prorate to find tuition costs for an academic year

EXAMPLE 1:

A 1,200-hour program has a tuition and fee charge of $4,000. (Academic Year = 900 hours)

$$\$4{,}000 \times \frac{900 \text{ hours}}{1{,}200 \text{ hours}} = \$3{,}000$$

EXAMPLE 2:

A 600-hour program has a tuition and fee charge of $3,000. (Academic Year = 900 hours)

$$\$3{,}000 \times \frac{900 \text{ hours}}{600 \text{ hours}} = \$4{,}500$$

The tuition charge may include any additional amount charged to "out-of-State" or "out-of-District" students. (Schools that use average charges are not *required* to develop a separate average charge based on residency, though this is certainly permissible and often desirable.)

Weighted average

Note that you cannot simply add the full-time charge of an in-State student to the full-time charge of an out-of-State student and divide the sum by two to find an average tuition and fees component for these students. The result would be a tuition and fees component too high for some students and too low for others. Instead, you must use a weighted average tuition and fees for all students.

For example, a school that had 100 students, 90 in-State and 10 out-of-State, should use the following calculation:

90 x in-State charge = X
10 x out-of-State charge = Y
Total = Z

Z ÷ 100 = weighted average tuition and fees

Uniform compulsory fees

The law allows the school to include "uniform compulsory fees" with tuition charges in the cost of attendance. Some charges made to the student are not tuition and fee costs but are considered part of the allowance for living expenses. For instance, library and parking fines cannot be included as part of tuition and fee costs because such fines are not uniform—they are not charged to all students in a program. The chart on the next page gives examples of charges that have traditionally been considered tuition and fee costs, and charges that have been considered part of the student's miscellaneous expense allowance (now part of the living expense allowance), based on policy interpretations in recent years. (See below for a discussion of living expenses.)

Note that the amount of tuition and fees is never reduced when the costs are paid by other sources of aid. Because the Pell Grant is considered the student's first source of aid, it is not reduced by other assistance (except for the National Science Scholarship Program [see Section Six, page 65] and for the veterans educational benefits used to calculate the PGI).

Limited Allowance for Living Expenses

In addition to tuition and fees, the Pell Grant cost of attendance includes a limited allowance for living expenses (room and board costs, books, supplies, transportation, and miscellaneous expenses). The allowance *may not exceed* $1,800 for a student who has no dependents and who lives at home with his or her parents while going to school. Note that the $1,800 limit applies to students who are single or married, dependent or independent, provided they do not have dependents and they live at home with their parents. *For all other students,* including those living on campus, the allowance for living expenses *may not exceed* $2,400.

Within these limits, the school may establish allowances based on the typical costs for its students. The school may establish any number of cost categories within the limits for students in different living situations—for example, students living on campus vs. off campus, or married students vs. single students. Schools can, if they choose, break down these broad categories even further. For example, suppose a school estab-

Tuition and Fee Costs	Miscellaneous Costs (Covered under living expense allowance—do not include in Tuition and Fees)
BOOKS, SUPPLIES, EQUIPMENT, FACILITIES	
Book rental Computer use fee Dictation tape rental fee Equipment breakage fee Equipment rental Flight fee Gymnasium use fee Laboratory fee Music instrument rental Physical education fee	Beauty kit purchase Book purchase Contingency fee (deposit) Deposits Equipment purchase Learning resources fee Music instrument purchase School pin fee Supplies Tools purchase Uniform purchase
GRADUATION FEES	
Diploma fee Graduation fee Interview (if required by school for graduation)	Placement (by outside firm) Academic transcript fee
ADMINISTRATIVE SERVICES	
Activity fee (such as athletics, student newspaper) Application fee (admissions, processing)* Health services fee (for services provided by school) Registration fee Student body fee	Change of program fee Credit by examination fee Deferred finance charges Deferred tuition fee Deposits Finance charges Health insurance (outside agency) Insurance fee (outside agency) Late registration fee Parking permits Refundable fees (damage, cleaning) Sales tax

*Note that a school may not charge students a fee for processing or handling any application, form, or data required to determine the student's eligibility for financial aid from the SFA programs.

broad categories even further. For example, suppose a school establishes a living allowance of $2,200 for single students living on campus. Within that category, the school might decide to designate $400 for books and supplies, $200 for transportation, and $1,600 for room and board.

Allowances may also vary from program to program. For example, the books and supplies for a biology program might be more expensive than books for an education program. Some financial aid administrators have said they find it helpful to designate the amounts used for various expenses in order to justify and document the student's total costs.

As is the case with tuition and fees, the student's costs must be estimated for a *full academic year,* even if he or she will be attending less than an academic year.

Child Care and Disability Expenses

The law includes an allowance, not to exceed a total of $1,000, for child care expenses for ***all*** of the student's dependent children. The allowance can be included if the child care is necessary to enable the student to go to school. A "child" is defined as a boy or girl who is too young to take care of him- or herself without supervision (generally, 12 years or younger). A child is considered a dependent if he or she can be included in the student's household.

An allowance should also be included for the costs of special services and equipment for a disabled student to attend school. The financial aid administrator should base the allowance on the costs of that student. A student is disabled if he or she is deaf, mentally retarded, hard of hearing, speech- or language-impaired, visually disabled, seriously emotionally disturbed, orthopedically impaired, autistic, has a traumatic brain injury, is otherwise health-impaired, or has specific learning disabilities that require special education and related services.* There is no fixed limit to the allowance for educational expenses related to a disability. However, you should be careful not to include costs for services or equipment provided free of charge by other assisting agencies.

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*As defined in Section 602 (a)(1)(A) of the Individuals with Disabilities Act, P.L. 101-476, enacted October 30, 1990

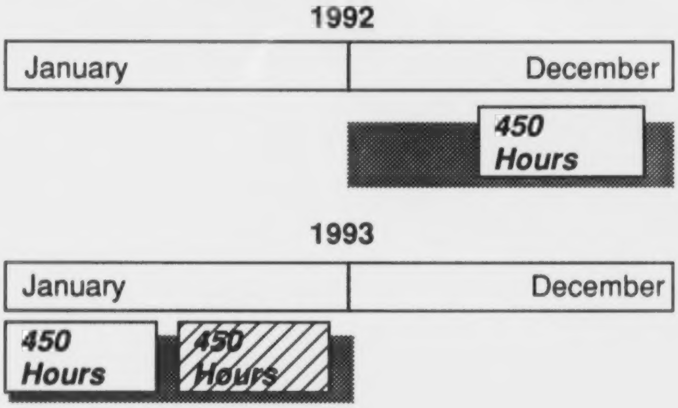
LOOKING UP THE SCHEDULED AWARD

Once you have figured the student's cost of attendance, you can use the full-time Payment Schedule to look up the student's Scheduled Award. (You may not even have to use the printed Payment Schedule if your school has a computerized version.)

As mentioned earlier, the Scheduled Award is the amount a student would receive for full-time attendance for a full academic year. A student may not be paid more than a Scheduled Award for an award year.

EXAMPLE:

A student enrolls in a clock hour program that is 1,350 hours long, and has an academic year of 900 hours. The first payment period begins in November 1992. The student receives a full Scheduled Award for the first two payment periods (900 hours), and thus cannot receive a payment for the third payment period that occurs in that award year.



The same limitation shown in this clock hour example applies to students at traditional schools who enroll in a summer session after attending a full academic year on a full-time basis. However, if the summer term occurs at least partially in the *next* award year, the student could be paid for the summer term out of the next award year's funds. At the end of this section, we will discuss how to ensure that transfer students and students enrolled in summer terms do not receive more than a Scheduled Award for the award year.

The student will receive *less* than a Scheduled Award if the student attends less than a full academic year or is enrolled less than full time. If your school uses academic terms, such as a semester, trimester, or

STEP 2
SCHEDULED AWARD

Limitation: One Scheduled Award for an award year

quarter, you will have to use the half-time and three-quarter-time Disbursement Schedules to look up awards for part-time students (see Step 3 below). If your school does not use academic terms, you can go directly to Step 4, which explains how to calculate the amount of the award that can be paid for a payment period.

STEP 3
PART-TIME AWARD

PART-TIME AWARDS

If your institution is a clock hour school, or a school that does not use terms (such as a semester or a quarter) to measure progress, proceed to Step 4 to calculate the student's payment for a payment period.

If your school uses credit hours and academic terms to measure progress, then you must use the student's enrollment status (half time, three-quarter time, or full time) to calculate the amount of his or her payment. A school may use its own standard for enrollment status, provided the standard meets the minimum requirements defined in the regulations (see the chart below). Once a school has set its standards for enrollment status, it must use those standards consistently.

Enrollment status chart

To be considered—	***A student must take at least—***
Half time	6 semester or quarter hours per term *or* 12 semester or 18 quarter hours per academic year for non-term programs
Three-quarter time	9 semester or quarter hours per term *or* 18 semester or 27 quarter hours per academic year for non-term programs
Full time	12 semester or quarter hours per term *or* 24 semester or 36 quarter hours per academic year for non-term programs

If a student is enrolled full time, then his or her award is the Scheduled Award that you looked up on the full-time Payment Schedule. If the student is enrolled part time, the award is taken from either the three-quarter or half-time Disbursement Schedules, as appropriate. Keep in mind that a part-time student will have remaining eligibility and can be paid if the student attends any additional terms in the award year. The student may be paid up to the amount of the Scheduled Award. See page 4-34 for more information.

If the student's enrollment status changes from one term to the next, you must recalculate the Pell Grant award using the new enrollment status. If the student's enrollment status changes within a term, you may have to recalculate the award under certain circumstances (see Section Five for information on recalculations).

CALCULATING THE PAYMENT FOR A PAYMENT PERIOD

The academic year is divided into payment periods. Instead of paying the student the entire Pell Grant award at the beginning of the course of study, the school must pay the award in installments to help meet the student's costs in each payment period. There are essentially three ways to break the Pell Grant award into payment periods. Which one you will use depends on whether the program (1) has academic terms and uses credit hours, (2) does not have terms, or (3) has academic terms but does not use credit hours.

Programs using academic terms

1) If the program uses academic terms and credit hours . . .

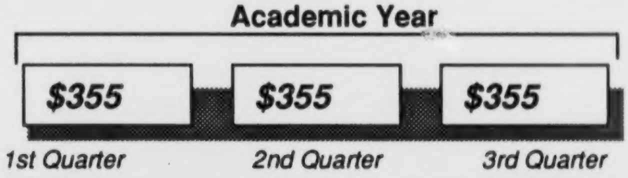
the payment period is the semester, trimester, quarter, or other academic term. Take the award from the appropriate Payment or Disbursement Schedule (based on the enrollment status of the student) and divide it by the number of payment periods (terms) in the award year. The result is the amount to be paid to the student for that payment period.

EXAMPLE:

A student enrolls in a program with three quarters in an academic year. The student has a PGI of 0 and is eligible for a Scheduled Award of $2,130. However, the student is enrolled half time, so the award from the Half-Time Disbursement Schedule is $1,065. How much should the student be paid for the first quarter?

Divide the award by the number of payment periods in the academic year.

$$\frac{\$1,065}{3} = \$355$$



Please note that the calculation for term programs assumes that the terms are of equal length. If the terms are not of equal length, a different calculation should be used (see "Non-Standard Terms" in Section Three).

STEP

4 PAYMENT PERIODS

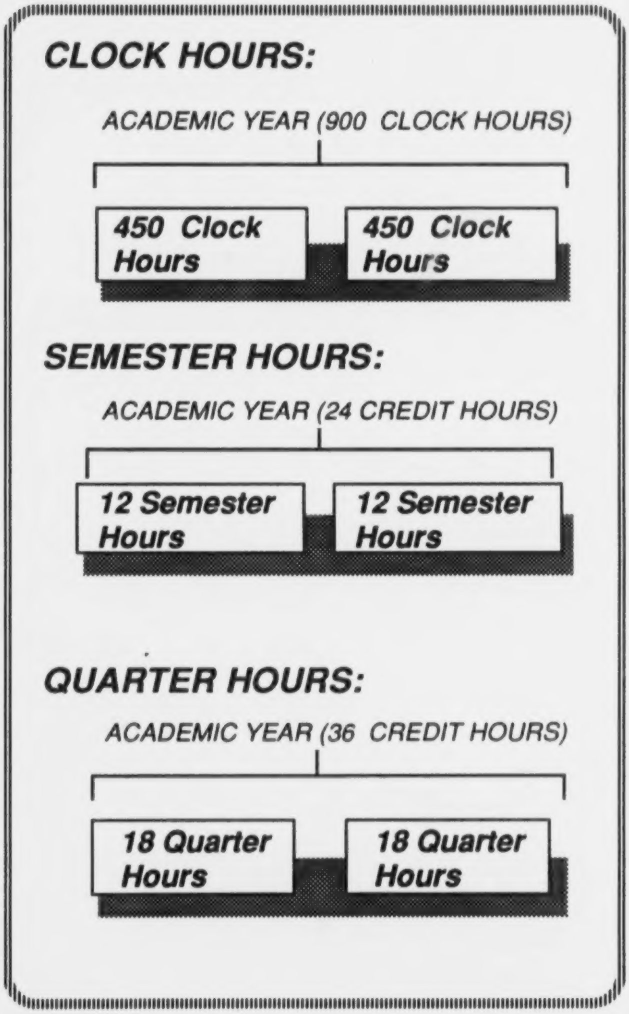
Non-term programs

2) If the program does not have academic terms . . .

you have to find the length of the payment periods before you can calculate the payment.

Program length = One academic year

The simplest case is when the program is one academic year long. An academic year must be divided into at least two equal payment periods. Thus, if a program is 900 clock hours and the academic year is also 900 clock hours, the program would have two payment periods of 450 hours each. Programs using semester or quarter hours would be divided similarly.


CLOCK HOURS:
ACADEMIC YEAR (900 CLOCK HOURS)
450 Clock Hours
450 Clock Hours
SEMESTER HOURS:
ACADEMIC YEAR (24 CREDIT HOURS)
12 Semester Hours
12 Semester Hours
QUARTER HOURS:
ACADEMIC YEAR (36 CREDIT HOURS)
18 Quarter Hours
18 Quarter Hours

If the school wishes to divide the academic year into more than two payment periods, the payment periods must continue to be of equal length. For instance, a 900 clock hour program could be divided into three payment periods of 300 clock hours each, or four payment periods of 225 clock hours each.

Non-term programs:

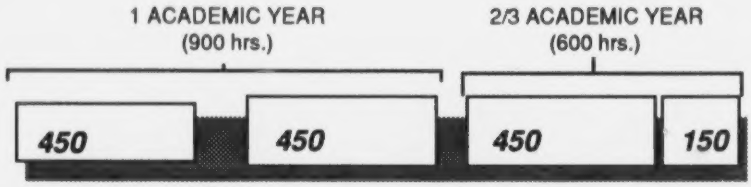
Program longer than an academic year

If the program of study is longer than an academic year, the payment periods would be continued until the program is over.

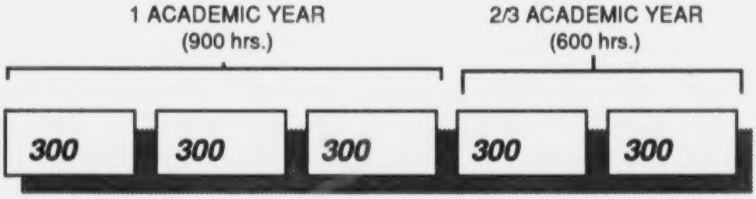
EXAMPLE:

A 1,500-hour program with an academic year of 900 clock hours can be divided into 4 or more payment periods, depending on the number of payment periods the school uses for the academic year.

4 Payment Periods:



5 Payment Periods:



Note that although the payment periods used to divide an academic year are identical, in a program longer than an academic year the last payment period may be shorter than the rest, depending on the hours remaining in the program.

Program less than an academic year

If the program is shorter than an academic year, the program must be divided into at least two equal payment periods. For example, a 600 clock hour program could be divided into two payment periods of 300 clock hours each.

When a program is not measured by academic terms, progress is measured by the coursework the student actually completes, whether the student is part time or full time. Thus, a part-time student and a full-time student will have the same payment period (450 clock hours, for instance), but it may take the part-time student 36 weeks to complete the payment period (12 hours per week), while it may take the full-time student only 18 weeks.

STEP 4
PAYMENT PERIODS

Non-term programs: Payment calculation

Once the payment period has been determined, the following calculation is used to determine the payment for each payment period:

FORMULA:

$$\text{Scheduled Award} \times \frac{\text{Hours in Payment Period}}{\text{Hours in Academic Year}}$$

CLOCK HOUR EXAMPLE:

A school has a 900-hour program (with an academic year of 900 hours) that it divides into 3 payment periods of 300 hours each. What is the payment for each payment period for a student with a Scheduled Award of $2,130?

$$\$2{,}130 \times \frac{300}{900} = \$710$$

CREDIT HOUR EXAMPLE :

A school has a program offering 42 quarter hours, with an academic year of 36 quarter hours. The school uses 2 payment periods of 18 hours each, with a remaining payment period of 6 hours. What are the payments for the 18-hour payment periods, and for the 6-hour payment period, for a student with a Scheduled Award of $1,230?

$$\$1{,}230 \times \frac{18}{36} = \$615 \text{ (for the two 18-hour periods)}$$

$$\$1{,}230 \times \frac{6}{36} = \$205 \text{ (for the 6-hour period)}$$

Remember that the student can receive only one Scheduled Award in an award year. Therefore, if the student was paid a full Scheduled Award ($1,230 in the credit hour example above) for the first two payment periods from 1992-93 funds, he or she could receive further payment only if the remaining payment period occurred in the next award year. (See further discussion of "Crossover Payment Periods," page 4-33.)

It is also important to remember that even if a program is shorter than an academic year, the payment is still calculated using the academic year as the basis for the award. If the student in the clock hour example on the preceding page had enrolled in a 600 clock hour program with ***2*** payment periods and had a Scheduled Award of $2,130, the student could not be paid more than $1,420 in that program.

Payments for program shorter than an academic year

EXAMPLE:

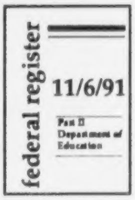
The student enrolls in a 600 clock hour program, consisting of two 300-hour payment periods. How much will the student be paid for each payment period?

$$\$2{,}130 \times \frac{300}{900} = \$710$$

Total Award
for Program
(2 Payments): $1,420

The student may only receive two-thirds of the Scheduled Award because the program is two-thirds of an academic year (600 hours/900 hours).

Completion of hours before next payment



federal register
11/6/91
Part II
Department of
Education

Note that in a program without academic terms, the payment period does not end until the student has completed all of the work paid for in the first payment period. Each subsequent payment period begins only when the previous one ends. As the November 6, 1991 regulation clarifies, the student may not be paid a Pell Grant for that subsequent payment period until the student has completed all the clock **or credit** hours in the first payment period.

However, a school may take into consideration "excused absences." For example, if a school's written policy allows a student to miss up to 50 hours of the program, the school may still pay a student who had missed 20 of the first 450 hours at the same time it would pay a student who did not miss any hours. However, the absences must be excused—that is, the student will not be required to make up the 20 hours of absences to receive the degree or certificate for the program.

STEP
PAYMENT PERIODS 4

Academic terms using clock hours

3) If the program uses academic terms and clock hours . . .

then the payment period is the semester, trimester, quarter, or other academic term used by the school. However, the payments are calculated based on the number of clock hours in the payment period, just as in a non-term situation:

FORMULA:

$$\text{Scheduled Award X } \frac{\text{Hours in Payment Period}}{\text{Hours in Academic Year}}$$

EXAMPLE:

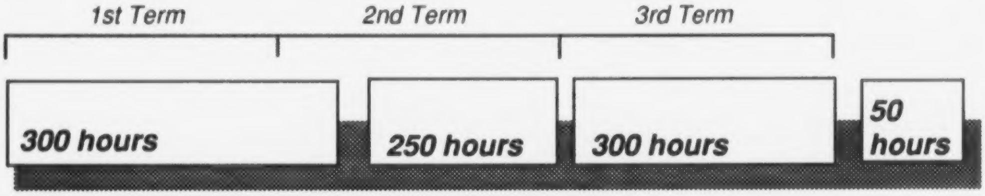
A school has an academic year of three terms, each consisting of 300 clock hours. What would be the payment for one term for a student with a $2,130 Scheduled Award?

$$\$2{,}130 \text{ X } \frac{300}{900} = \$710$$

As in a non-term situation, if the student does not complete the clock hours for which he or she was paid, the payment period continues until those hours are completed. If the payment period extends into another term, the next payment period will be the number of clock hours that would have been scheduled for that term minus the clock hours that belong to the previous payment period. Thus, the pattern of payment periods becomes somewhat different:

EXAMPLE:

A student enrolls in a program with 3 terms, consisting of 300 clock hours each. However, the student does not complete the 300 hours for the first term until 50 hours have elapsed in the second term. What are the student's payment periods for this program?



(If the academic year is defined as 900 hours, the student's payment for the second term will be 250/900 of the Scheduled Award, and for the last 50 hours will be 50/900 of the Scheduled Award.)

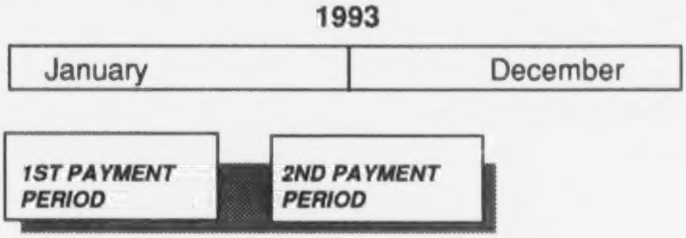
As you can see, because the first 300 hours extended into the second quarter, the second payment period is shortened, and a fourth payment period is added to pay for the hours remaining to be completed after the third quarter.

CHECKING REMAINING ELIGIBILITY: CROSSOVER PAYMENT PERIODS

Payment periods do not always fall neatly into one award year or another. When a payment period falls into two award years, it is referred to as a "crossover payment period."

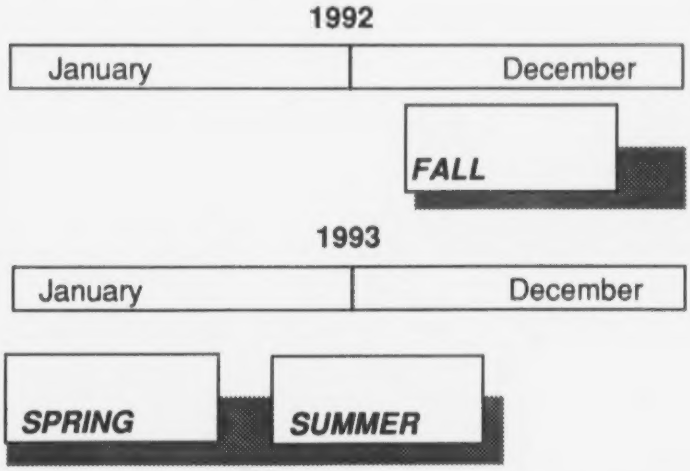
CLOCK HOUR EXAMPLE:

A student enrolls in a 900 clock hour program on January 4, 1993. The first 450-hour payment period ends on May 17, and the second payment period runs from May 24-September 30.


1993
January
December
1ST PAYMENT PERIOD
2ND PAYMENT PERIOD

The second payment period begins in the 1992-93 award year, but "crosses over" into the 1993-94 award year, which begins on July 1, 1993.

SEMESTER EXAMPLE:


1992
January
December
FALL
1993
January
December
SPRING
SUMMER

At a school with a traditional term calendar, the summer term is usually a crossover payment period.

With two exceptions, the basic calculation for a crossover payment period is the same as that for any other payment period. The two exceptions are crossover payment periods that are so short that they are actually "non-standard terms," and crossover payment periods that are made up of two or more "mini-sessions." Both of these exceptions are discussed in Section Three, "Special Program Considerations."

Payment from either award year

The school may make a payment for a crossover payment period out of either award year, provided the student has a valid SAR for the award year selected.* The decision of which award year to use is usually based on the student's remaining eligibility in the earlier award year. For instance, using the semester example, if a student had already been paid for two semesters as a full-time student in the 1992-93 award year, the student would already have been paid a full Scheduled Award for that year. However, if the student submits a valid SAR for the 1993-94 award year, he or she could be paid for the crossover period from that year's funds. Of course, a student may still be eligible for a summer payment from the earlier award year if the student has not attended for a full academic year. An example would be a student who enrolls at mid-year, in the spring session, and still has eligibility remaining for the summer term.

A student could still be eligible to receive a Pell Grant payment for the summer term, even after receiving payments for all the terms in the academic year, if the student attended *part time.* (See figure on opposite page.) However, the student may be paid only up to the amount of the Scheduled Award. Even if the student in the example enrolled *full-time* during the summer term, he or she would only receive the remaining amount of the Scheduled Award ($250), instead of a full-time payment ($500).

Costs for crossover payment period

Costs for a crossover payment period are figured in the same way as for any other payment period—that is, the Pell Grant cost of attendance is based on a student's costs for a full academic year. In many cases, a school's tuition and fee charge for a summer session will be different from the charges for regular terms. The costs for the summer session would still be figured in the same way as for any other term. For instance, if your academic year is defined as two semesters, you must not add the cost of the summer term to the costs for the two semesters. The award for the summer term is still based on the costs for one academic year, which is two semesters in this case.

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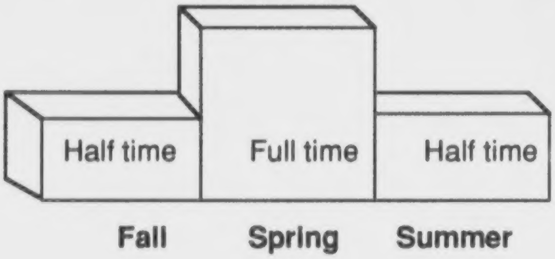
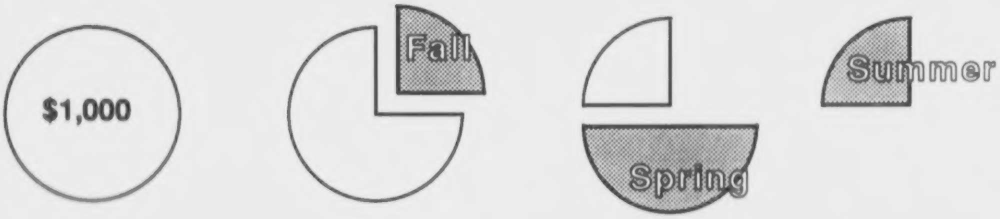
*There is one exception: If more than six months of the payment period occurs in a given award year, the Pell Grant payment must be made from that award year.

A student takes a half-time course load in the fall semester, and a full-time load in the spring. (The academic year is two semesters.)



The student has a Scheduled Award of $1,000 at the school and receives a $250 half-time payment for fall, and a $500 full-time payment for spring. The student decides to enroll half time in the summer term at the school, which begins on June 15. Because the summer term is a crossover payment period, the student is eligible for the remaining $250 of the Scheduled Award for that award year.



Scheduled Award $1,000

Fall Payment $250

Spring Payment $500

Summer Payment $250

CHECKING REMAINING ELIGIBILITY: TRANSFER STUDENTS

Duplicate (or new) SAR and transcript needed

Transfer students present another case where the school must be careful not to exceed the Scheduled Award. To pay a Pell Grant to a student who was previously enrolled at another eligible school during the award year, you could just have the student request a duplicate of his or her original Student Aid Report and submit it to you. Or, if your school uses an MDE different from the one at the student's previous school and you want a SAR produced by your MDE, you could ask the student to write to your MDE to request a duplicate SAR. (For information on the Record Information Transfer (RIT) process, see the 1992-93 *Counselor's Handbook for Postsecondary Schools.*)

In addition, the student must make arrangements to have the other eligible school(s) that he or she attended send a financial aid transcript to your school. If the student has not already asked the other school(s) to send the transcript(s), you may request them on the student's behalf. The transcript requirement is discussed in more detail in Chapter Three of this

Handbook because providing the transcript is one of an institution's general administrative responsibilities.

The Pell Grant payment for a transfer student is calculated in the same way as for any new student. That is, you must determine the Scheduled Award for the student at your school and divide that award into payments for each payment period. However, before paying a transfer student, you must also make sure the student does not receive more than 100 percent of his or her Scheduled Award during the award year.

Figuring percentage of remaining eligibility

The information you need is on the financial aid transcript from the previous school. First, find the percentage of the Pell Grant received at that school: Divide the amount received by the student at the previous school by the student's Scheduled Award at that school. Then subtract this percentage from 100 percent. The result is the maximum percentage of the Scheduled Award that the student may receive at your school.

EXAMPLE:

A student attends fall and winter terms at a school using academic quarters. The student then transfers to a school using semesters for the spring semester. The financial aid transcript from the first school shows the student received $1,000 in Pell Grant payments and had a $1,530 Scheduled Award. The student is eligible for a $1,950 Scheduled Award at the new school. What is the maximum the student can be paid for the remainder of the award year at the new school?

$$\frac{\$1{,}000}{\$1{,}530} = 65\% \text{ of Scheduled Award used at first school}$$

The student is eligible for 35% of the Scheduled Award at the new school.

$$35\% \times \$1{,}950 = \$683$$

A student with a $1,950 Scheduled Award would ordinarily receive a $975 payment for one semester (if enrolled full time). However, the transfer student in this example may not be paid more than $683 (rounded up from $682.50), because the student has received 65% of the Scheduled Award at the first school.

The reason for using percentages is that a transfer student may have different Scheduled Awards because the costs of attendance at the two schools may be different. The percentages are a way of comparing the portions of a student's eligibility that have been used at both schools. (If the student's Scheduled Award is the same at both schools, you can find the amount of the student's remaining eligibility simply by subtracting the amount received at the first school from the Scheduled Award.)

Note that a transfer student receives the same payments as any other student, until the limit (100 percent of a Scheduled Award) is reached. An example would be a transfer student who enrolls for two terms in the award year at your school and would ordinarily receive a $500 payment for each term. However, the student's remaining eligibility, based on payments at the other school, is only $600. Rather than "rationing" this amount by splitting it into two $300 payments for the two terms, you must pay the student $500 for the first term, and the remainder ($100) for the second term. Thus, the student will have received a full payment for the first term, even if he or she does not return for the second term.

TWO MATHEMATICAL NOTES

1 When making disbursements, you must round to the nearest dollar: Round up if the decimal is .50 or higher; round down if it is less than .50. For instance, if a calculation resulted in a payment of $516.66, round up to $517. If the calculation result was $516.33, round down to $516.

For a student who is expected to be enrolled for more than one payment period in the award year, you must alternate rounding up and rounding down to ensure that the student receives the correct amount for the year. For example, if a student had a Scheduled Award of $1,025 to be paid in two payment periods, the first payment would be $513 (rounded up from $512.50), and the second payment would be $512 (rounded down to ensure that the student is not overpaid for the year).

The same principle applies when there are three or more payment periods in the award year. For instance, if the student has a Scheduled Award of $1,100 and enrolls at a school using quarter terms, the payment for each term would come to $366.66. The first two payments would be rounded up to $367, and the last payment would be rounded down to $366 to reach the total of $1,100.

2 When using fractions, you must be careful to multiply first, and then divide, or you may create an overpayment. For example, if you are calculating the payment in a program that has three payment periods of 300 hours each, you should use the method in this example:

$$\underset{\text{(Scheduled Award)}}{\$2{,}130} \times \frac{300 \ \text{(hours in payment period)}}{900 \ \text{(hours in academic year)}}$$

Step 1: $2,130 X 300 = 639,000

Step 2: 639,000 ÷ 900 = $710

(In ***this*** case, you can simplify this calculation by reducing the fraction 300/900 to 1/3 and get the same result. But, if you divide the fraction to get a decimal [300/900 = .333333...] and then round the decimal either down [.33] or up [.34], your calculation will produce either an underpayment [$703] or an overpayment [$724].)

SECTION THREE: SPECIAL PROGRAM CONSIDERATIONS

In the preceding sections, we have described Pell Grant calculations that apply to most postsecondary educational programs. However, your school may have programs that require "special handling." You should review the topics in this section to see if any of the programs at your school are affected.

COMBINED CREDIT AND CLOCK HOURS

Some programs are measured by a combination of credit and clock hours. The Pell Grant regulations include a formula to find out whether a student taking both clock and credit hour courses is enrolled at least half time and would thus be eligible for a Pell.

If the sum of these two fractions is one or more, the student is enrolled at least half time:

$$\frac{\text{Credit hours per payment period}}{6} + \frac{\text{Clock hours per week}}{12} = 1$$

Thus, a student who is taking a 3-credit hour course and is attending 6 clock hours a week would be considered half time.

$$\frac{3}{6} + \frac{6}{12} = 1$$

CONSORTIUM AGREEMENTS (BETWEEN ELIGIBLE SCHOOLS)*

The Pell Grant regulations prohibit a student from receiving a Pell Grant from more than one institution at the same time. However, it is possible for a school to pay a student enrolled in one of its eligible programs for courses taken at other eligible institutions, if those courses apply to the degree or certificate in the first school's program. To pay such a student, the school must first have a written consortium agreement with the other institution(s) the student is attending.

Purpose of the agreement

Elements of a consortium agreement

A consortium agreement establishes that the "home" institution considers the student to be enrolled in an eligible program and unconditionally accepts those credits earned at the "host" institution for credit towards the degree in that program. The agreement should further specify which institution will be responsible for disbursing aid and monitoring student eligibility. (Usually, the home institution is responsible for disbursements, but if the student is enrolled for a full term or academic year at the host institution, it may be easier for the host institution to monitor the student's eligibility and make payments.) Other factors that may need to be addressed in the agreement are the applicable refund policy, satisfactory progress policy, and any special procedures for calculating the total cost of attendance and enrollment status for the student.

The consortium agreement can be a blanket agreement between two or more eligible schools, or it can be written for a specific case involving a specific student. Such an agreement is often used when the student takes related courses at neighboring schools, or when the student is in an exchange program with another eligible institution for a term or more. The written agreement ensures that the student will receive payment from only one institution in a given payment period. (For more information on consortium agreements, see Chapter Three, Section Five.)

Cost of attendance

The allowances for living expenses, child care, and disability expenses are calculated in the same way as for a student taking classes at only one school. The student's tuition and fee charges at the consortium schools have to be combined into a single tuition and fee charge for purposes of the Pell Grant calculation. If the student is carrying a full-time course load (based on hours taken at both or all schools), the student's tuition and fee

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*If the written agreement is with an *ineligible* school, please refer to the discussion of "contractual agreements" in Section Five, Chapter Three of this *Handbook*. In a contractual agreement with an ineligible school, the student must be enrolled for the entire program at the eligible school, even though a portion of the program is provided by contract with the ineligible school. Thus, the student's enrollment status and cost of attendance are based on the hours taken at, and the costs in, the eligible program.

costs would be based on actual or average charges, depending on whether the disbursing school uses actual or average charges for its Pell Grant awards.

Prorating average charges at each school

Actual charges for a full-time student would simply be the sum of the actual charges at the schools the student is attending under the consortium arrangement. If the disbursing school uses *average charges*, then the average charges at each of the schools must be prorated and combined. If the student is taking an equal course load at each school, the full-time tuition and fee charges for an academic year at each school can be averaged to determine the tuition and fee cost. However, if the student is taking an unequal course load, you must prorate the charges based on the number of hours the student is taking at each school.

EXAMPLE:

A student is enrolled in a 3-hour class at School A and a 9-hour class at School B. The full-time tuition and fee charge for an academic year at School A is $3,000, while the full-time charge at School B is $4,000. What is this student's average tuition and fee charge for an academic year?

Prorated charge at School A: $\$3{,}000 \times \frac{3}{12^{*}} = \$750$

Prorated charge at School B: $\$4{,}000 \times \frac{9}{12} = \$3{,}000$

Add the prorated charges at both schools: $\$750 + \$3{,}000 = \$3{,}750$

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*Note that the denominator must be the total number of hours the student is taking at both schools.

Average charges should also be prorated in this way to find the average full-time charge for a part-time student.

Combined enrollment status

The enrollment status of a student attending more than one school is based on all the courses taken at the consortium schools that apply to the degree or certificate at the "home" school. You may have to make some adjustments if the coursework at the different schools is measured in different units.

Finding semester/ quarter hour equivalents

EXAMPLE 1:

A student is taking 6 semester hours at School A, the "home institution," and 9 quarter hours at School B as part of the program at School A. What is the student's enrollment in semester hours?

$$9\text{ quarter hours} \times \frac{2^*}{3} = 6\text{ semester hours (equivalent at School B)}$$

Then, the hours taken at both schools can be added:

$$\begin{array}{rl} & 6\text{ semester hrs. at School A} \\ + & 6\text{ semester hrs. at School B} \\ \hline & 12\text{ semester hours} \end{array}$$

EXAMPLE 2:

In the same example as above, the "home institution" is School B, and the 6 semester hours must be converted into the equivalent quarter hours:

$$6\text{ semester hours} \times \frac{3}{2} = 9\text{ quarter hours (equivalent at School A)}$$

Then, the hours taken at both schools can be added:

$$\begin{array}{rl} & 9\text{ quarter hrs. at School A} \\ + & 6\text{ quarter hrs. at School B} \\ \hline & 15\text{ quarter hours} \end{array}$$

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*The regulatory minimum standards for enrollment status treat a quarter hour as 2/3 of a semester hour.

It is the responsibility of the school that disburses the Pell Grant award to maintain information on the student's eligibility, how the award was calculated, what money has been disbursed, and any other documentation, even if some of that documentation must come from other schools.

COOPERATIVE EDUCATION

In a cooperative education program, the school assesses the work to be performed by the student and determines the equivalent academic course load. The student's enrollment status is based on the equivalent academic course load.

Costs for a co-op program

If a student has a co-op job for the first term, the tuition and fees for that period can be projected over a full academic year. For example, a student has a co-op job for the first quarter of the academic year and pays a $50 fee and no tuition. The $50 fee can be projected for each of the three quarters in the academic year for a total tuition and fee amount of $150. This amount is then added to the allowances for living expenses, child care, and disability expenses (if any) to arrive at the cost of attendance for that term. You may, if you choose, recalculate the student's tuition and fees at the end of the first term, rather than use the cost of attendance for the period of co-op study for subsequent payment periods. This decision must be consistent with your school's overall policy on recalculating for changes in a student's costs. (For more information, see Section Five of this chapter.)

CORRESPONDENCE STUDY

Half-time limit

An eligible correspondence program must meet the criteria for an eligible program (see Chapter Three of this *Handbook*) and must require at least 12 hours of preparation per week. The school determines the length of the correspondence program by preparing a written schedule for the lessons that are to be submitted by the student. Students enrolled in programs of correspondence study are considered to be no more than half-time students, and thus are limited to no more than half a Scheduled Award. However, a correspondence student may receive more than half a Scheduled Award if the correspondence program includes a required period of residential training, or is combined with class instruction (see page 4-45).

Costs in a correspondence program

The cost of attendance established by law does not include separate calculations for correspondence students. Use the same rules to figure the cost of attendance for a correspondence program as you would for any other program (see Section Two of this chapter).

To calculate awards for a correspondence student—

1. Use the student's Cost of Attendance and Pell Grant Index to look up the Scheduled Award.
2. Divide the Scheduled Award in half. This is the student's Pell Grant award.

3. Divide the Pell Grant award into two equal payments (one for each payment period).

NOTE: Unlike payment for most programs, the first payment for a correspondence program may not be made until the student has completed 25 percent of the work in the program. The second payment may be made only after the student completes 75 percent of the work in the program.

Residential training

If the correspondence program has a required period of residential training, you must treat the residential training as an additional payment period, and use the standard clock hour calculation for that payment period. (See below.) Note that the correspondence portion of the program is still treated as a separate portion of the program that is divided into two equal payment periods.

EXAMPLE:

A student enrolls in a 600 clock hour correspondence training program that has an academic year of 900 hours. However, the last 150 hours of the program are residential training. The student has a Scheduled Award of $2,400. How are the student's payments calculated?

Divide Scheduled Award by 2 to determine student's half-time award for correspondence portion:

$$\frac{\$2{,}400}{2} = \$1{,}200$$

Divide half-time award into two equal payments:

$$\frac{\$1{,}200}{2} = \$600$$

Calculate payment for residential training using standard clock hour formula:

$$\$2{,}400 \times \frac{150}{900} = \$400$$

$600	***$600***	***$400***
1st Half of Correspondence Training	2nd Half of Correspondence Training	Residential Portion

CORRESPONDENCE STUDY COMBINED WITH REGULAR STUDY

If correspondence coursework is to be combined with regular coursework, the correspondence courses must meet the following criteria to be included in the student's enrollment status:

1. The courses must apply toward the student's degree or certificate or be remedial work to help the student in his or her course of study.

2. The courses must be completed during the period required for the student's regular coursework.

When combining the number of hours of correspondence work with the number of hours of regular coursework to determine the student's enrollment status for a Pell Grant, the amount of correspondence work may not exceed the number of hours of regular coursework in which the student is enrolled. (However, if the student is taking at least a half-time load of correspondence courses, the student would be paid at least as a half-time student, regardless of the hours of regular coursework.)

The following chart gives examples of the above rules. The chart assumes that the school defines full-time enrollment as 12 credits per term, making half-time enrollment equal to 6 credits per term.

Regular work (credit hrs.)	*Correspondence work (credit hrs.)*	*Adjusted Total Course Load*	*Enrollment Status*
3	3	6	Half time
3	6	6	Half time
3	9	6	Half time
6	3	9	Three-quarter time
6	6	12	Full time
2	6	6	Half time

As you can see in the second and third examples, the number of correspondence hours that were counted in the total course load were adjusted so that the correspondence hours never exceed the regular hours taken. Note that, in the last example, the student is eligible for payment based on half-time enrollment in correspondence courses, despite the fact that the student only took 2 hours of regular coursework.

FOREIGN STUDY

A student can be paid a Pell Grant for study at a foreign institution only if the coursework is taken as part of an eligible program at an eligible U.S. institution. The foreign study arrangement must be covered by a written agreement between the two schools. Such an arrangement would have to meet the same requirements as a contractual agreement (see the discussion in Section Five, Chapter Three).

INCARCERATED STUDENTS

The cost of attendance rules do not include separate calculations for incarcerated students. Use the same rules to figure the cost of attendance for incarcerated students as you would for any other program (see Section Two). However, the school should take into account the reduced living expenses for students who are incarcerated in penal or mental institutions. The school may develop a separate cost of attendance for incarcerated students.

JOB TRAINING (JTPA) PROGRAMS

If a program conducted with funding provided through the Job Training Partnership Act (JTPA) is offered by an eligible institution and meets the definition of an eligible program, eligible students in that program may receive Pell Grant assistance. The Pell Grant for students in JTPA programs is calculated in the same way as for any other Pell Grant recipient.

Tuition and fee charges for JTPA programs

A school may include a tuition and fee charge in the cost of attendance for a Pell Grant recipient only if that charge is actually made to the student and is paid either by the student or by some type of student financial assistance (such as JTPA). The existence of such a tuition and fee charge must be documented in the same way as for any non-JTPA student—for instance, in the school's contract with the student, or in the agreement with the JTPA agency. (If the school charges the student for tuition and fees, the school would have to expect the student to pay the charge if the JTPA agency or other source of assistance does not pay on behalf of the student.)

On the other hand, if the school does not actually charge the student for tuition and fees (either because it is prohibited from doing so under the JTPA contract, or for other reasons), then **no tuition and fee component would exist for the Pell Grant cost of attendance.** Even if there is no tuition and fee component, the student's cost of attendance includes the standard allowance for living expenses, as described in Section Two.

Reimbursement contracts

Note that certain JTPA contracts operate on a "reimbursement" basis; that is, the student must fulfill the terms of the contract before JTPA will reimburse the school for tuition and fee costs. If the student does not fulfill the terms of the contract, the school is left with an unpaid tuition and fee charge. Contracts are established this way to offer schools an incentive to properly train and place students enrolled in the training programs. However, as mentioned above, if a tuition and fee charge is included in a Pell Grant recipient's cost of attendance, the student is liable for any outstanding charges if JTPA does not pay them because the student has not fulfilled the contract. This requirement undercuts the JTPA contract by removing the incentive to the school. Therefore, schools that enter into reimbursement contracts **will have to remove the tuition and fee component** from the Pell Grant cost of attendance because, under these contracts, schools are prohibited from holding the student liable for outstanding charges.

NON-STANDARD TERMS

Standard terms are terms of approximately equal length. However, some schools may have terms of unequal length. Modifications must be made to the student's cost of attendance, enrollment status, and payment calculation so that the payment for a non-standard term is in correct proportion to the award for the full academic year. A non-standard term must be divided into more than one payment period if it is longer than half of the academic year.

Cost of attendance

Usually, you will be using the same full-year cost of attendance for a non-standard term as you have used for previous standard terms in the award year. In some cases, however, you will have to use the costs for the non-standard term to find the student's cost for a full academic year: for instance, when the non-standard term is the first term in the award year, or if a cost recalculation is required—see Section Five for rules on recalculation. The allowance for living expenses for an academic year is not affected by the non-standard term. However, the tuition and fees charge for a non-standard term must be prorated to find the cost to the student for a full academic year. For example, if a student's first payment period will be the one-month term at a school using a 4-1-4 calendar, the tuition and fee charge for one month's coursework must be prorated to find the cost for the full academic year (9 months).

EXAMPLE:

A school has an academic calendar with two 4-month terms in the fall and spring, with a mini-term in between, in January. The tuition and fees for the one-month term are $750. If the student enrolls at the beginning of the mini-term, what is the student's cost for a full academic year, for Pell Grant calculation purposes?

Prorate the tuition and fee charge based on the weeks in the academic year divided by the weeks in the non-standard term.

$$\frac{36\text{ weeks}}{4\text{ weeks}} \times \$750 = \$6{,}750$$

Enrollment status

A similar modification must be made to find the student's enrollment status. Let's assume that the student in the one-month non-standard term is taking one class for three credit hours. A student enrolled for three credits over a standard term would be attending less than half time and could not be paid a Pell Grant. But a student earning three credits in one month may actually be attending full time. To find out the minimum full-time workload in a non-standard term, use the following formula:

FORMULA:

$$\frac{\text{Weeks in term}}{\text{Weeks in academic year}} \times \text{Minimum full-time enrollment for year}$$

EXAMPLE:

The full-time enrollment status in a one-month term that is part of a nine-month academic year is 1/9 of the full-time standard for an academic year (at least 36 quarter or 24 semester hours). The following calculation would be used for a semester program that requires a minimum of 24 credit hours for full-time enrollment for an academic year:

$$\frac{4\text{ weeks}}{36\text{ weeks}} \times 24\text{ credits} = 2.67$$

Thus, a student must be taking at least 3 credits in the non-standard term to be full time. (Note that for enrollment status purposes, you must always round up to the next highest whole number.)

In the preceding example, a student taking three credit hours or more in the one-month term would be considered a full-time student. To find the minimum course load for a three-quarter-time or half-time student, simply substitute in the above formula the number of credit hours that a student must earn in an academic year to be considered a three-quarter-time or half-time student. (The minimum standard for three-quarter-time enrollment for an academic year is 18 semester hours or 27 quarter hours; the minimum standard for half-time enrollment for an academic year is 12 semester hours or 18 quarter hours.)

Payment calculation

To calculate the student's payment, first look up the student's award on the Payment Schedule (as a full-time, three-quarter-time, or half-time student). Multiply this award by the fraction in the following example to find the payment for the non-standard term:

FORMULA:

$$\frac{\text{Weeks in term}}{\text{Weeks in academic year}} \; \mathbf{X} \; \text{Award}$$

EXAMPLE:

A student attends a one-month term as a half-time student (based on enrollment status figured above). The student's award as a half-time student is $1,110.

$$\frac{4 \text{ weeks}}{36 \text{ weeks}} \; \text{X} \; \$1{,}110 = \$123.33$$

Thus, the student's payment for the one-month period is $123.

Keep in mind that the same non-standard term calculation must be made for the two four-month terms in the 4-1-4 calendar, or the student will receive an overaward.

The non-standard term calculation does not have to be used if the school considers a short non-standard term to be a part of the standard term. For example, a school could consider that a semester or quarter contains within it the opportunity for a student to take additional credits on an accelerated basis—perhaps at night over a period of a few weeks during the term, perhaps on weekends, or perhaps in a short period of time immediately following the completion of regular courses in a term.

REMEDIAL COURSEWORK

A non-credit remedial course is one for which the school allows no credit toward a degree or certificate. A reduced-credit course is one for which the school gives some credit toward the degree or certificate, but not as much as would normally be given based on the workload required by the course. To simplify the following discussion, we will use the phrase "non-credit remedial coursework" to refer both to non-credit courses and to the non-credit portion of a reduced-credit course.

Allowable coursework

When figuring enrollment status, the school must include any non-credit remedial coursework designed to increase the student's ability to pursue his or her program of study. However, the student must have already been accepted into an eligible program and must be taking the remedial courses as a part of that program. If the student's acceptance into the program is conditional on the completion of the remedial work, the student is not considered to be enrolled in an eligible program while taking the remedial courses. Non-credit remedial coursework may not be included in the student's enrollment status if the coursework leads to a high school diploma or its equivalent.

The school determines how many credit or clock hours to include in the student's enrollment status for a remedial course by comparing the workload (classwork plus homework) in that course to the workload for the most comparable course that is not reduced credit or remedial.

One-year limit

There is a limit on the amount of non-credit or reduced-credit coursework that can be included in a student's enrollment status. The school may not take into account more than one academic year's worth of non-credit remedial coursework (*not to exceed* 30 semester hours, 45 quarter hours, or 900 clock hours—the equivalent of a typical academic year). However, courses in English as a Second Language (ESL) do not count against the one-year limit.

ESL as an eligible program

Schools may pay Pell Grants to students who are enrolled in ESL programs if the ESL program consists solely of ESL coursework, meets the definition of an eligible program (see Chapter Three, Section One), and enrolls only undergraduate students who need the program to be able to use already existing knowledge, training, or skills. To apply for a determination of the eligibility of an ESL program, the school should contact the Division of Eligibility and Certification (see organizational listing in Chapter One for contact).

SUMMER MINI-SESSIONS

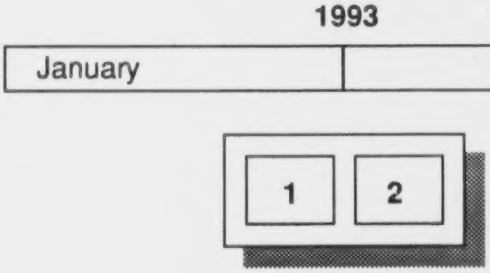
If a term-based school offers a series of mini-sessions that overlap two award years (by "crossing over" the June 30 end date for one award year), these mini-sessions must be combined and treated as one term. The student's enrollment status for the entire payment period must be calculated based on either—

1. The total number of credits the student is taking for all sessions, if that number is known when the award is calculated; or
2. A projected number of credits based on the credits the student is taking for the first session, if the number of credits to be taken in subsequent sessions is unknown when the award is calculated.

A student may not be paid more than the amount for one payment period for completing any combination of the mini-sessions.

EXAMPLE:

A school offers two mini-sessions over the summer, from May 24-June 25 and from July 5-August 27.



Because the two mini-sessions cross the July 1st award year boundary, they must be combined for calculation purposes and treated as one payment period.

IMPORTANT: Note that recalculation is required if the student does not ultimately attend the projected classes in a subsequent mini-session. See "Change in Enrollment Status" in Section Five of this chapter.

SECTION FOUR: DISBURSING PELL GRANT AWARDS

It may seem that most of the work is completed once the student's award has been calculated. However, there is still the matter of actually getting the payment to the student. In this section, we discuss how payments can be made (by check or credit to the student's account) and when the payments can be made. Below we discuss the Certification statement on the back of the SAR that each aid administrator must sign before any payment can be made. (See Chapter Two, Section One for information on the Certification statements that *students* must sign.)

SCHOOL CERTIFICATION AND STUDENT ELIGIBILITY

School Certification

You must complete and sign the Certification statement on the Payment Voucher (Part 3 of the SAR), unless your school uses the automated Recipient Data Exchange (RDE), the Electronic Data Exchange (EDE), or the "floppy disk" systems to report to the Department. The statement certifies that the student's Pell Grant was calculated in accordance with program regulations, the instructions in the *Federal Student Financial Aid Handbook,* and the 1992-93 Payment Schedule. The statement further certifies that the student is making satisfactory academic progress, has signed the required Certification statements, and has completed verification (if required).

As noted in the School Certification, the school is liable for incorrect payments made to the student because of a mistake by the school. The financial aid administrator is subject to a $10,000 fine, a prison sentence, or both if he or she knowingly makes false or misleading statements on the SAR.

Reviewing student's eligibility

You must review the student's eligibility at the time you are going to make a payment. For instance, a student may have been making satisfactory academic progress when award letters were mailed in the spring term, but may no longer be making progress when he or she comes to the business office for payment at the beginning of the fall term. Make sure the student still meets the eligibility requirements for the Pell Grant (as discussed in Section One), and that the appropriate documentation is in the student's file.

METHODS OF DISBURSEMENT

Credit to account or direct payment

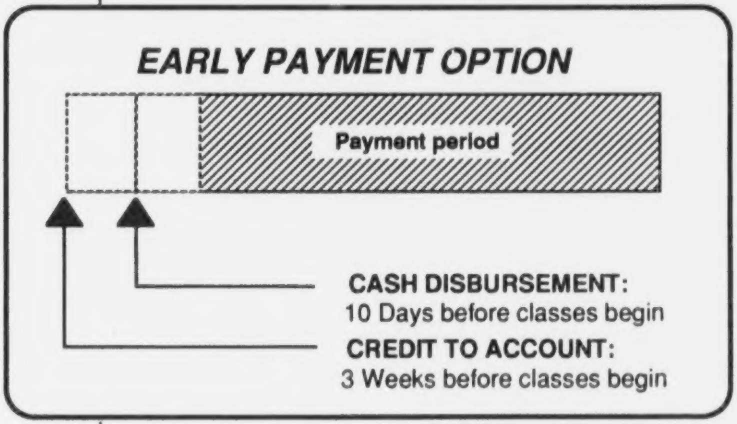
There are two ways a school may pay a Pell Grant to a student: either by crediting the student's account for any outstanding educational expenses, or directly (by check). (Direct payments to the student are often referred to as "cash disbursements.") Usually, a school will use the Pell Grant to credit the student's account for any unpaid charges for tuition and fees (and room and board, if provided by the school), and then will disburse the remaining amount of the Pell Grant (if any) to the student for living expenses.

Limitation on credit to account

The school may use the Pell Grant to pay other charges at the school only if the student authorizes such a payment in writing. The school may not require the student to authorize such payments. As with any SFA funds, payments may be made only for educational expenses.*

Early payment option

Program regulations permit a school to pay a student before the beginning of a payment period if the student has already registered for that payment period. The earliest a school may credit a registered student's account is 3 weeks before the first day of classes in the payment period. The earliest a school may directly pay such a student is 10 days before the first day of classes in the payment period. (Remember that, in a clock hour or non-term program, the school may not pay a student until he or she has completed the coursework for the previous payment period.)



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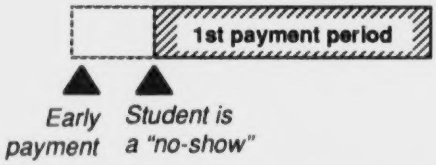
*Note that a school cannot create a credit balance of Pell Grant funds without written authorization from the student. Further, a credit balance may not be used to repay a student's loan. You must try to give any Pell credit balance to the student. Loan payments are not considered an educational expense.

If the school uses the Pell Grant to credit the account or pay the student before the payment period begins, but the student never actually begins attending any classes, the school must reimburse the Pell Grant account for that payment. (If the student begins attending some but not all of his or her classes, you may have to recalculate the Pell Grant award—see Section Five.)



The school must return the advance payment if the student never begins attending classes.

FIRST PAYMENT WITHOUT A VALID SAR

"First payment" option

Most schools have the option of making a first Pell Grant payment to an eligible student ***before*** the student has submitted the valid SAR to the school. To use this option, the school must have received the student's official PGI (the one that will appear on the SAR) and financial information from an MDE, from an Electronic SAR,* or from a tape of the Applicant Data Tape Service. Once the "first payment" option has been used, no further payments may be made to the student until the student submits a valid SAR to the school. *The school and the student are liable for the first payment if the student does not submit a valid SAR within the established deadlines.* (In such a case, the school must return the amount of the first payment to the Pell Grant account.) The school and the student are also liable for the amount of any overpayment that cannot be adjusted in subsequent Pell Grant payments in the award year.

Even if you have already received the official PGI on a SAR (or on an Electronic SAR or Applicant Data Tape), if you discover that the student needs to make corrections to his or her data, or qualifies for a special condition, you may do a hand calculation and make a first payment without having to wait for the official recalculated PGI. You must, of course, go ahead and submit the student's SAR for reprocessing (using Part 2 of the SAR), or make the changes through the Electronic Data Exchange. You may not make the changes on Part 3 of the SAR or on the full data tape. See the 1992-93 *Counselor's Handbook for Postsecondary Schools* for an explanation of how to make these changes on the SAR.

Verification

Note that you may also make a first payment, based on the student's first processed SAR, while the student is being verified. Even if the student's award increases after the student has been verified, you can still pay on the PGI from the **first** processed SAR. This option saves reprocessing

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*Before payment may be made, the Electronic SAR must be signed by the student. This is a change from the September 12, 1990 NPRM, which required the student's spouse to sign also (if the student was married) as well as one of the student's parents, if the student was dependent.

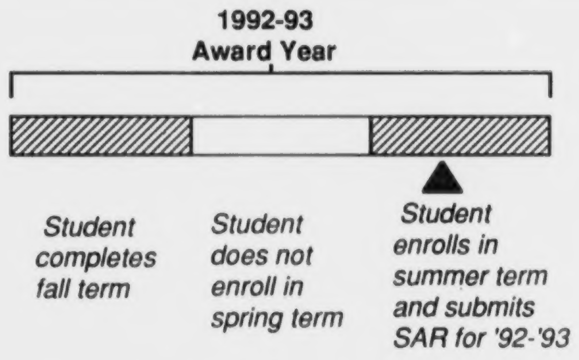
time. The idea is for the student to be able to receive some funds fairly quickly, especially if the award increase will not be that significant. Also, if the student does not submit the reprocessed SAR by the deadline, the student will receive at least some funds. The school will not be held responsible if the student never turns in a reprocessed SAR; the payment on the original SAR will stand. For more information, see Section Five of this chapter and *The Verification Guide, 1992-93.*

TIMING OF PAYMENTS

The school may use its discretion in disbursing funds within a payment period to best meet a student's needs. For instance, some schools pay students on the first day of class in a payment period, while others wait until the end of the add/drop period. Other schools pay the student in monthly installments to help meet living expenses throughout the payment period. In all cases, however, the full amount due the student for a payment period must be disbursed to the student before the end of the payment period.

Retroactive payment

The school may pay a student retroactively for any completed payment periods within the award year if the student was eligible for payment in those periods. Thus, if a student brings in a valid SAR while enrolled as an eligible student in the summer term, but was also enrolled and eligible for payment in the fall term, that student can be paid retroactively for the fall term.


1992-93
Award Year
Student completes fall term
Student does not enroll in spring term
Student enrolls in summer term and submits SAR for '92-'93

A student who submits a SAR late in the award year can be paid for previous eligible payment periods in the same award year (in this case, the fall term, assuming that the summer term is part of the '92-'93 award year).

However, the fall payment would be based on the hours ***completed*** by the student for that term. If the student had enrolled as a full-time student at the beginning of the fall term but dropped to half-time status by the end of the term, the retroactive payment must be based on half-time status.

federal register
11/6/91

The November 6, 1991 final regulation makes it clear that a school may make any retroactive payments in one lump sum to decrease the administrative workload.

Notification of payment

The school must notify the student of the amount he or she will be paid and the method of payment (by credit to account or by check). If the school will be paying the student by check, it must tell the student when the check will be available and where to go to pick it up. (It is helpful to include the cashier's office hours in any notification.)

If the student does not pick up the check on time, the school must still make that payment available to the student for 15 days after the student's last day of enrollment for that award year. (Instead of holding the check for that period, the school may cancel the first check and issue a new check when the student requests payment.)

EXAMPLE

A student attends the fall term at a community college. The college credits the student's account for tuition and fees early in the term and sends a letter to the student to notify her of the cash disbursement. However, at the end of the term, the student still has not picked up the check.

The school *must* release the check to the student if she claims it within 15 days after the end of the fall term. If the student has withdrawn from school but resumes enrollment later in the award year, the school must again make the payment for fall living expenses available to the student.

If the student has not picked up the check at the end of the 15-day period, the school may credit the student's account ***only*** for outstanding charges for *tuition and fees* and *room and board* for the award year. (The November 6, 1991 final regulation clarifies this policy.) If the student contacts the school to request the check more than 15 days after the student's last day of enrollment, the school may pay the student (if it chooses) through the next payment period, even though the student is no longer enrolled. The school may mail the check to the student, rather than waiting for him or her to return and pick it up.

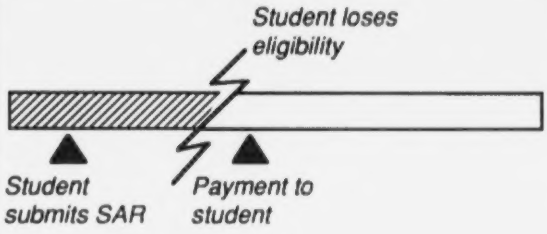
federal register
11/6/91
Part II
Department of Education

Payments to students who have completed a program

If there is a delay in a school receiving its Pell Grant funds, some students could complete their program or academic year before receiving their final Pell Grant awards. If this happens, as soon as the school receives its funds, it must pay any student who submitted a valid Student Aid Report by the appropriate deadline. Even though these students would receive their payments late, no regulations would be violated because the students had previously met all the requirements for payment.

Payments to students who have lost eligibility

Ordinarily, a student who has lost his or her Pell Grant eligibility cannot be paid. However, in some cases, a student may have presented a valid Student Aid Report* to the school while eligible for payment, but lost eligibility before his or her account was credited or a check was written. Rather than penalize the student for a delay in payment, the regulations require the school to pay the student out of Pell Grant funds for the educational expenses the student incurred up to the day the student became ineligible.



A student who loses eligibility after submitting a SAR can still be paid, but only for costs incurred during the period of eligibility.

For example, a student submits a valid SAR during the second week of classes and is eligible for payment at that time. But by the time the check is processed for the student's cash disbursement and the student has been notified to pick up the check, the student has withdrawn from school.

The aid administrator must decide what educational expenses (living expenses, transportation, or books and supplies, for example) the student could reasonably have incurred up to the date the student lost eligibility. The same principle would be used to credit the student's account for any outstanding school charges for tuition and fees or room and board.

Note that if the student withdrew during the school's refund period, the school must take the student's refund into account before it determines the amount of the Pell Grant to be disbursed for the amount of the student's remaining expenses.

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*Note that a valid Electronic Student Aid Report (ESAR) is one the student signed ***before*** losing his or her eligibility or withdrawing.

SECTION FIVE: RECALCULATING PELL GRANT AWARDS

The Pell Grant award may have to be recalculated if the student's information changes after the initial calculation or disbursement. (Please keep in mind that this section discusses *award* recalculations, using the Payment Schedule, as opposed to recalculations of the Pell Grant Index [PGI].) Of the significant factors that go into calculating a Pell Grant award, the three that are most likely to change are the Pell Grant Index, enrollment status, and cost of attendance. The Pell Grant regulations specify when a school must recalculate an award to take these changes into account, as described below. The recalculation may require adjustments in the student's subsequent payments, or even repayment of the entire Grant, as discussed in the next section, "Overpayments and Overawards."

CHANGE IN THE PELL GRANT INDEX

There are three reasons why the PGI for a student may change during the award year:

Types of PGI changes

1. ***Corrections.*** The student may have to correct an error on the original application or on the previous Student Aid Report (SAR). This frequently occurs as a result of verification, but it may also be a result of the student's own review of the information on the SAR. If the student has already been paid based on the original PGI, the award will have to be recalculated.

2. ***Updating.*** The student is required to update three projected data elements if they change for a reason other than a change in marital status: dependency status, household size, and the number of family members in postsecondary education.

3. ***Special conditions.*** In some cases where the family has lost income, the student may qualify to have expected year income used to calculate the Pell Grant Index (see the 1992-93 *Counselor's*

Handbook for Postsecondary Schools). If the student has already been paid on a previous application, but is eligible for a larger award, the award will have to be recalculated.

Recalculation based on valid SAR

If a student submits a SAR with a Pell Grant Index different from the one on the SAR used for the payment calculation, you must first decide which SAR is valid. Is this new SAR the result of corrections to the previous SAR? Are the corrections accurate and consistent with the student's other information? If the new SAR is the valid SAR, in most cases you must recalculate the student's Pell Grant award for the entire award year based on the new PGI. However, there are two exceptions:

Exceptions:

Verification extension

- A student selected for verification cannot increase his or her eligibility if the corrected SAR is submitted during the "verification extension" period (60 days after the student's last day of enrollment, not to extend beyond September 1 following the end of the award year.) Thus, if the student submits a reprocessed SAR during the extension period, and the SAR has a lower PGI than the previous SAR (thereby increasing the student's eligibility), recalculation is *not* permitted. The student would be paid based on the *higher* PGI on the SAR that was submitted earlier. (NOTE: If the corrections *reduce* the student's eligibility; that is, if the reprocessed SAR has a higher PGI, then the award must be calculated based on the reprocessed SAR.)

Special condition PGI

- The other exception occurs when the student qualifies for a special condition, refiles using a correction application, and the resulting PGI is higher than the PGI from the regular application. In this case, *both* PGI's are valid—the information used for both calculations is correct, but the special condition calculation uses expected year income instead of base year income. However, the student may submit the SAR that gives him or her the greatest eligibility—in this instance, the original SAR.

CHANGE IN ENROLLMENT STATUS

Students in clock hour programs and programs without terms are not paid based on enrollment status; therefore, no recalculation is necessary for changes in the hours taken by students in these programs.

Required recalculation: Student does not attend class

In a term program that uses credit hours, a school must calculate a student's payment for each term based on the enrollment status for that term. Thus, if a student attended full time for the first term and then enrolled half time in the second term, you must use the half-time enrollment status to calculate the student's payment for the second term. In addition, if the student does not begin attendance in all of his or her classes, you must recalculate the student's award based on the lower enrollment status. For instance, a student registers for a full-time course load (15 hours) but only begins attendance in three classes (9 hours). The student's Pell Grant award must be recalculated based on the lower enrollment status.

Optional recalculation: enrollment change within a term

The regulations do not require any recalculation for changes in enrollment status after the student has begun attendance in all of his or her classes. However, some schools have a policy of recalculating an award if a student's enrollment status changes at any time within a term. If such a policy is established, it must be applied consistently to all students: If the school chooses to recalculate for a student who changes from half time to full time, it must also recalculate for a student whose enrollment status decreases.

Payment when enrollment changes within a term

If your school does not establish a policy for recalculation within a payment period, a student who begins attendance in all classes would be paid based on the initial calculation, even if his or her enrollment status changes before the payment is made. For instance, a student registers full time, submits a SAR, and begins attending all of her classes. The financial aid administrator calculates a full-time award but, by the time the student comes to pick up the check, she has dropped to half-time enrollment. The student is still paid based on full-time enrollment, as long as she is still eligible for the payment. On the other hand, if the student did not submit her SAR until after she had dropped to half-time enrollment, the Pell Grant calculation would be based on the student's enrollment status at that time (half time).

(A more drastic change in enrollment status, when the student withdraws from school completely, is discussed in Chapter Three, Section Four, "Refunds and Repayments.")

CHANGE IN COST OF ATTENDANCE

Schools are not required to recalculate Pell Grant awards for cost of attendance changes during the award year. However, if the school recalculates for a change in enrollment status, it must also take into account any changes in the cost of attendance at that time.

Cost changes between payment periods

Some schools elect to recalculate awards when the cost of attendance changes from one payment period to the next. This may happen because of changes to the student's tuition and fee costs, or because the student's living situation changes (for example, the student moves off campus). A school may recalculate Pell Grant awards for cost changes within the award year, as long as the recalculation policy is carried out for all students whose costs change.

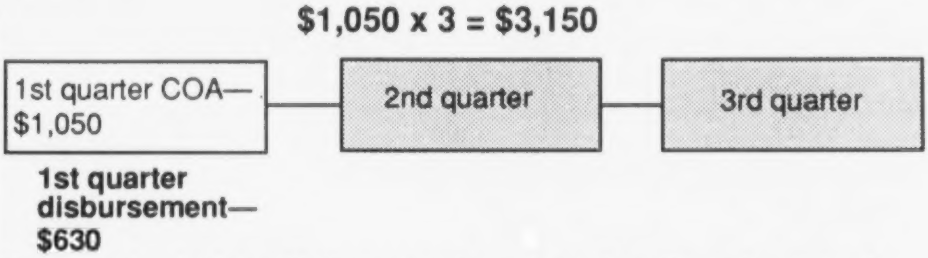
Cost changes within a payment period

Some schools also recalculate financial aid awards when a student's costs change *within* a payment period. For instance, if a student moves from a dormitory to off-campus housing at midterm, the school may wish to recalculate the student's award for that payment period. Again, for Pell Grant purposes, such a policy is acceptable if it is carried out for all students whose costs change within the payment period. Note that a school may establish a policy of recalculating for cost changes from one payment period to the next and, at the same time, have a policy not to recalculate for cost changes *within* a payment period.

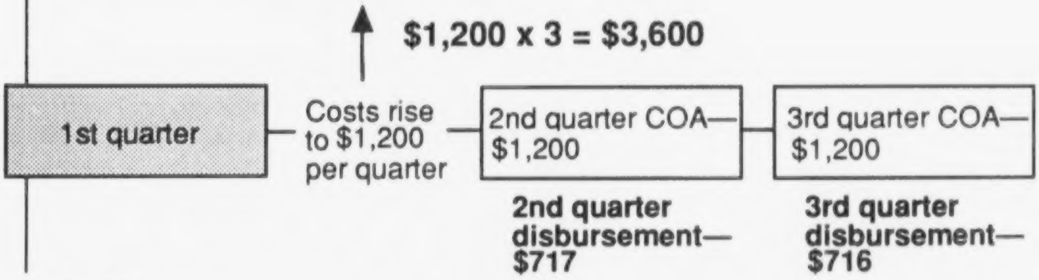
Please keep in mind that you may not recalculate the payment for a payment period that took place *before* the cost change. For example, if a student lives in the dormitory during the first quarter and then moves off campus for the second and third quarters, the recalculation would only affect the payments for the second and third quarters.

Computing new cost of attendance

However, to compute this new cost of attendance, you must multiply the new cost by the number of terms in the **entire** academic year. For example, Gerard's cost of attendance at Bergerac Community College during the first quarter of 1992-93 is $1,050, and his PGI is 250. With a cost of $3,150 for the academic year ($1,050 x 3), Gerard is eligible for a Scheduled Award of $1,890 and receives a first disbursement of $630 ($1,890÷3).


$1,050 x 3 = $3,150
1st quarter COA—$1,050
2nd quarter
3rd quarter
1st quarter disbursement—$630

However, beginning with the second quarter, when Gerard moves off campus, his cost goes up to $1,200. To find the full-year cost of attendance that will be used to determine the new Scheduled Award, multiply $1,200 by 3 (the total number of quarters in the academic year). Thus, you would use $3,600 as your cost of attendance when looking up Gerard's Scheduled Award for the remaining two quarters. The Scheduled Award is now $2,150, and Gerard will receive disbursements of $717 and $716 for the remaining two quarters.


$1,200 x 3 = $3,600
1st quarter
Costs rise to $1,200 per quarter
2nd quarter COA—$1,200
3rd quarter COA—$1,200
2nd quarter disbursement—$717
3rd quarter disbursement—$716

SECTION SIX: OVERPAYMENTS AND OVERAWARDS

An overpayment of a Pell Grant occurs any time the student receives a payment that is greater than the amount for which the student is eligible. Examples of the four most common types of overpayments are given below.

Types of overpayments

1. ***Student error,*** such as failing to report the spouse's income on the application.
2. ***School error,*** for instance, when a student's award is taken incorrectly from the Payment Schedule, or when the school pays a student who is not making satisfactory progress.
3. ***Required recalculations,*** when a student never begins attending class or does not begin attending all of his or her classes, or withdraws from school after receiving a cash disbursement for living expenses. (See "Refunds and Repayments" in Chapter Three of this *Handbook* for repayment calculation.)
4. ***Optional payments,*** for instance, when the school makes a first payment to the student based on an official PGI, but the student never submits the SAR.

No matter what the reason for the overpayment, it must be repaid by the student. In addition, if the overpayment is the result of a school error or an optional payment, the school must repay the Pell Grant account whether or not it succeeds in collecting the overpayment from the student.

"Hold file"

A student who owes an overpayment on a Pell Grant and who subsequently submits a student aid application will receive a Student Aid Report informing him or her that the application cannot be processed because of the overpayment, and that the student is not eligible for additional Federal aid until he or she repays in full the amount owed. Neither a PGI nor an FC will be calculated for such a student. The student's application is considered to be in a "hold file."

Self-reported overpayment

Note that, this year, a new question on the student aid application asks whether the student is in default on an SFA loan or owes a refund on an SFA grant. Even if the student answers "Yes," the student will receive a valid PGI (and FC), although these numbers will have the letter "C" next to them to alert you that you cannot award any SFA aid until the student repays what is owed, or unless you discover the student answered erroneously. Note that these students are not placed in the hold file mentioned above. See Chapter Two, Section One, for more information.

CORRECTING OVERPAYMENTS

If a school has made an overpayment to a student, it may continue to make payments to that student under certain circumstances:

If the overpayment is due to the school's error, the school may continue to make Pell Grant payments to the student if the student acknowledges the overpayment in writing and agrees to repay it within six months, or if the overpayment can be eliminated within that award year by reducing the student's subsequent Pell Grant payments during the award year. Of course, the student must still meet all other eligibility criteria in order to receive payment.

If the overpayment is not the school's fault (for instance, if the student made a mistake on the application),* the school may continue to make Pell Grant payments to the student if the school can reduce the student's subsequent Pell Grant payments to eliminate the overpayment in that award year. ***If this cannot be done, the school may not make further Pell Grant payments to that student until he or she completely repays the school.*** If the student will not agree to repay, the school is not liable to the Department of Education, but must make a reasonable effort to contact the student and collect the overpayment.

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*Note that in cases where the overpayment is the result of an error on the SAR, the overpayment is the difference between the amount the student was eligible for, based on correct SAR information, and the amount the student was actually paid.

Referrals to the Department

The school must notify the Department if it has serious difficulty in collecting an overpayment from a student: for example, if the school cannot contact the student or the student is uncooperative, or if the school establishes a repayment plan and the student refuses to pay or discontinues payments. If the school is unable to recover or eliminate an overpayment that is not the school's fault, the school must refer the student's case to the U.S. Department of Education for collection. (The referral procedures for overpayments are discussed in the 1992-93 *Verification Guide*.)

Effect on eligibility for other SFA programs

After the Department has received the school's information, collected the overpayment from the student (if possible), and resolved the case, it will notify the school by letter of the results. Please note that, until ED has reached a final resolution of the referred case, ***the school may not make any further payments to that student under any SFA program.***

Similarly, if the student owes a repayment on other SFA grants or is in default on SFA loans, that student would also be ineligible for a Pell Grant. The general eligibility rules for students in default or overpayment status are discussed in Chapter Two, Section One.

PREVENTING OVERAWARDS

NSSP scholarship cannot be reduced

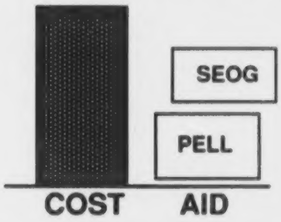
The Pell Grant has traditionally been regarded as the first source of assistance to the student and thus has never been adjusted to take into account other aid, even if the student's combined aid package exceeded the student's need. **However, there is now an exception to this rule:** Any funds awarded the student under the National Science Scholarship Program (NSSP) may not be reduced because the student receives other forms of Federal student aid—**including a Pell Grant.** This statutory provision is discussed in "Dear Colleague" letter 91-SG-14, issued in August 1991, and in Chapter Nine of this *Handbook*.

Adjusting campus-based aid

It is still true that a Pell Grant may not be adjusted when combined with any aid *other* than an NSSP scholarship. The aid administrator is responsible for preventing an overaward by adjusting the aid the school controls. For example, if the student is receiving campus-based aid in addition to a Pell Grant, the campus-based aid must be adjusted to prevent an overaward. The sum of the student's Family Contribution (FC), Pell Grant, campus-based aid, and any other aid and resources may not exceed the student's campus-based cost of attendance.

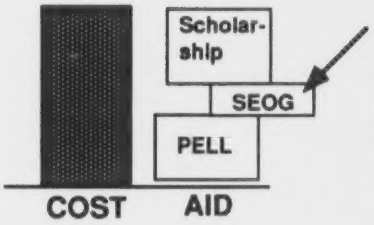
EXAMPLE:

Bill is awarded a $2,200 Pell Grant and a $1,500 SEOG to attend Kaler Junior College and enrolls in the fall term. His cost of attendance is $4,500.



The total aid awarded is $3,700, well within Bill's need (his PGI and FC are both 0).

However, the school learns later in the term that Bill will receive a $1,500 art scholarship from a foundation outside the school. The scholarship is not reduced if the student receives other aid.



The school must reduce Bill's SEOG by at least $700 to prevent an overaward. (Otherwise, his total aid, $5,200, would exceed his cost of attendance [$4,500] by $700.)

As mentioned in Section Four, if the student's aid package includes a loan and the package must be adjusted to prevent an overaward, the Pell Grant may not be used to pay back the loan—a loan repayment does not constitute an educational expense.

Estimated financial assistance

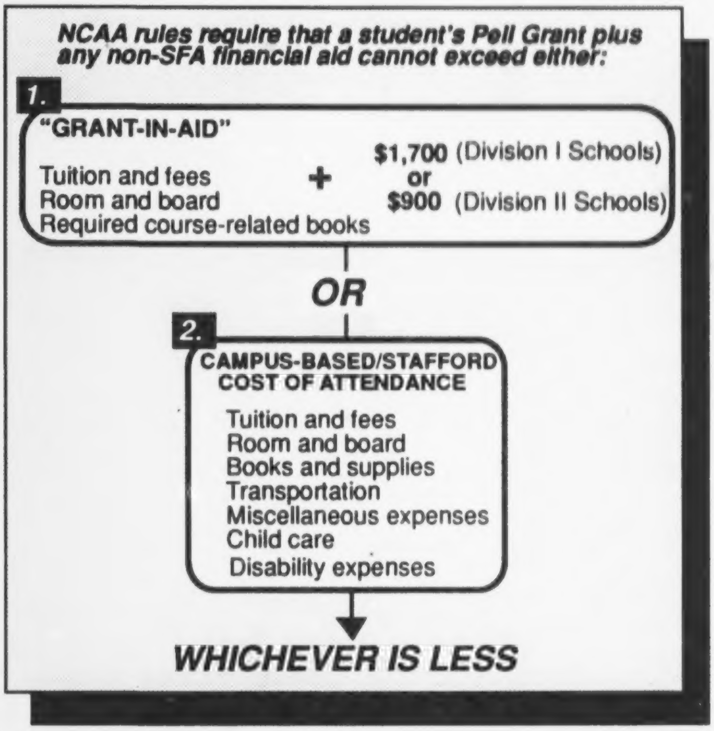
In addition to adjusting any campus-based aid, schools are required to include an estimate of the student's Pell Grant eligibility as part of the student's "estimated financial assistance" when certifying a Stafford Loan or Supplemental Loans for Students (SLS) Loan application. (See Chapter Ten of this *Handbook* for further information.)

NCAA rules for student athletes

NOTE: There might have been some confusion in the past about how the principle of not adjusting the Pell Grant relates to National Collegiate Athletic Association (NCAA) rules pertaining to student athletes. ***Student athletes must receive the FULL amount of any Pell Grant for which they are eligible.*** However, the NCAA states that *other* sources of financial aid the student is scheduled to receive must be reduced if that aid *plus* the Pell Grant exceeds one of two amounts, ***whichever is less:***

1. what the NCAA calls a full "grant-in-aid" plus either $1,700 (at Division I schools) or $900 (at Division II schools) ***OR***

2. the cost of attendance at the student's school, as it is defined for the campus-based and Stafford Loan programs.

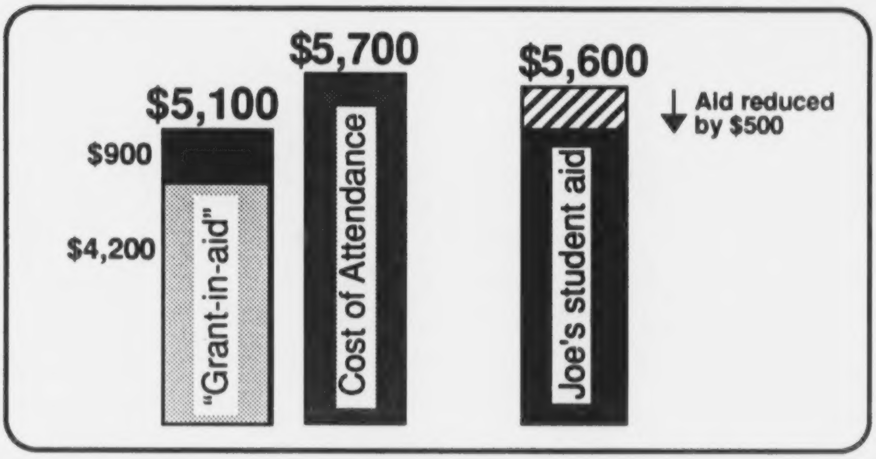

NCAA rules require that a student's Pell Grant plus any non-SFA financial aid cannot exceed either:
1.
"GRANT-IN-AID"
Tuition and fees
Room and board
Required course-related books
+
$1,700 (Division I Schools)
or
$900 (Division II Schools)
OR
2.
CAMPUS-BASED/STAFFORD COST OF ATTENDANCE
Tuition and fees
Room and board
Books and supplies
Transportation
Miscellaneous expenses
Child care
Disability expenses
WHICHEVER IS LESS

If the student's potential aid plus the student's Pell Grant award exceeds the appropriate amount as noted above, the school must reduce any aid over which it has control, *not* the Pell Grant.

For example, Joe is a student athlete at Gibbs College, a Division II school. He is eligible for the following student aid:

Pell Grant	$2,400
Athletic scholarship	$2,000
State aid	$1,200
Total	$5,600

The "grant-in-aid" amount at Gibbs totals $4,200. That amount plus the $900 limit allowed a Division II school equals $5,100. The campus-based/Stafford cost of attendance at Gibbs is $5,700. The total amount of Joe's potential student aid ($5,600) exceeds the *lesser* of the two costs that must be considered ($5,100). Therefore, the aid administrator at Gibbs must reduce any aid other than Joe's Pell Grant by $500. (See the graphic on the next page.)


$5,100
$900
$4,200
"Grant-in-aid"
$5,700
Cost of Attendance
$5,600
Aid reduced by $500
Joe's student aid

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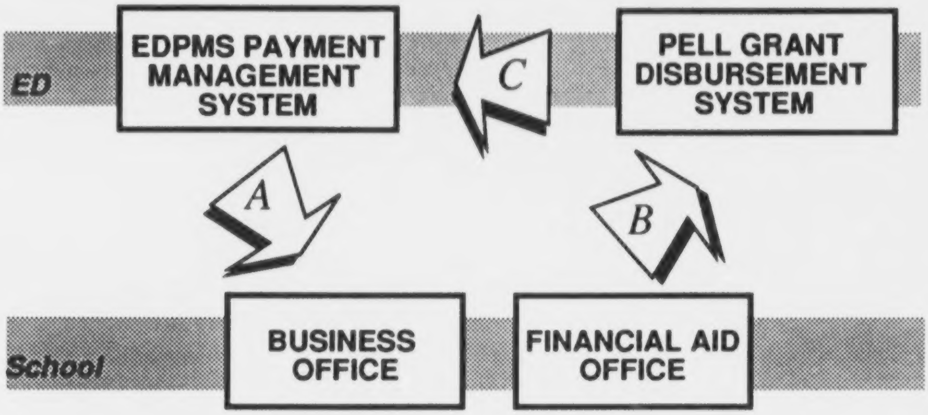
SECTION SEVEN: REPORTING DISBURSEMENTS

So far, we have concentrated on how the school calculates and pays the Pell Grant to the student. This section will explain how to report your Pell Grant payments to the Department through the Pell Grant Disbursement System, and how this reporting system affects your authorization.

Pell authorization

The authorization for your school is the maximum amount that the school may draw down from the ED Payment Management System (EDPMS), which we will discuss at the end of this section. At the beginning of each award year, a school is given an initial authorization based on an estimate of the Pell Grant funds the school will need to cover its first payments. As the award year progresses, the authorization for your school will need to be adjusted, based on the actual number of eligible students who submit Student Aid Reports.


ED
EDPMS PAYMENT MANAGEMENT SYSTEM
C
PELL GRANT DISBURSEMENT SYSTEM
A
B
School
BUSINESS OFFICE
FINANCIAL AID OFFICE

A

Business office draws down funds from EDPMS based on initial authorization, pays Pell awards to students

B

Financial aid office reports student payment data to disbursement system, using Part 3 of SAR

C

Data from disbursement system is used to adjust school's authorization for future funds

The Pell Grant Disbursement System serves two basic functions. First, it enables the Department to track a school's need for funds as the award year progresses and to adjust the school's authorization on that basis. Second, the Disbursement System provides documentation to the school to reconcile the school's total expenditures at the end of the year with the records of the eligible students who were paid by the school. (This documentation is the Student Payment Summary, discussed near the end of this section.) The Pell Grant funds that you report to the ED Payment Management System (EDPMS) as expended must equal the total payments to eligible Pell Grant recipients at the school, as shown by the records for each student.

REPORTING METHODS

There are four different methods for a school to report payment information to the Department. One method is to mail the paper documents (SAR Payment Vouchers and the Institutional Payment Summary, which is discussed on page 4-73) to the Pell Grant Disbursement System, addressed to "Pell Grant Program, P.O. Box 4158, Iowa City, Iowa 52244-4158." In addition, there are three automated methods to transmit the same information. Information on these methods is transmitted by "Dear Colleague" letters.

Recipient Data Exchange

The most widely used automated method is the *Recipient Data Exchange (RDE).* The school transmits a magnetic tape or cartridge to the Pell Grant Disbursement System. The information on the tape or cartridge is similar to the information contained on the Payment Voucher.

Electronic Data Exchange

The second automated method is the *Electronic Data Exchange (EDE),* which allows schools or their service agents to make corrections to the student information on the SAR and to fill out Part 3 of the SAR using the school's computers. Information is transmitted electronically by telephone line overnight to a communications network, which in turn transmits the information to the Disbursement System, thus greatly speeding up the corrections and reporting process.

"Floppy Disk Exchange"

The third and most recent automated method is the *"Floppy Disk" Data Exchange,* which permits funded independent or central campus schools to submit payment information on microcomputer diskettes. (Branch campuses with unique Pell IDs participate through their central offices.) Schools using this method submit Payment Data batches on either 5 1/4" or 3 1/2" diskettes. The "floppy disk" method is designed for schools with fewer than 500 Pell Grant recipients. Schools with more than 500 recipients should consider participating in the RDE or EDE methods.

"Hard copy"

For the sake of simplicity, we will be describing the steps in the data reporting process from the point of view of schools that use "hard copy" Payment Vouchers. However, you may want to read this section even if you are at an RDE, EDE, or "floppy disk" school. All four methods transmit the same basic student information. The only difference is the way in which the information is sent: by paper, by magnetic tape/cartridge, by telephone line, or by diskette. All reporting requirements that apply to Payment Voucher submissions also apply to the three automated systems.

PAYMENT VOUCHER*

The basic document in the Disbursement System is Part 3 of the Student Aid Report, called the Payment Voucher. After the student submits the Student Aid Report to the school, the school fills in the award information on the back of the Payment Voucher. The school periodically sends Payment Vouchers for its students to the Pell Grant Disbursement System in a batch, with a transmittal form called the Institutional Payment Summary (IPS). (See pages 4-73 and 4-85 for more information on the IPS and on the Batch Report, respectively.)

The Disbursement System returns these Payment Vouchers, called Processed Payment Vouchers, to the school. The information that schools originally wrote in on their Vouchers now appears in print on these Processed Payment Vouchers. Comments about the data—what data the Disbursement System has accepted or rejected, for example—are printed on the front of the Payment Voucher. The data accepted by the System is printed on the back. Schools review the Processed Vouchers and return any corrected ones with their next IPS submission. (See the diagram on the next page.)

NOTE: If by chance you have misplaced an original Payment Voucher, Processed Payment Voucher, or even an entire batch of payment data, you may request duplicates by contacting your Financial Management Specialist at (202) 708-9807. He or she will tell you how to request the duplicates. Most duplicates can be obtained within two workdays.

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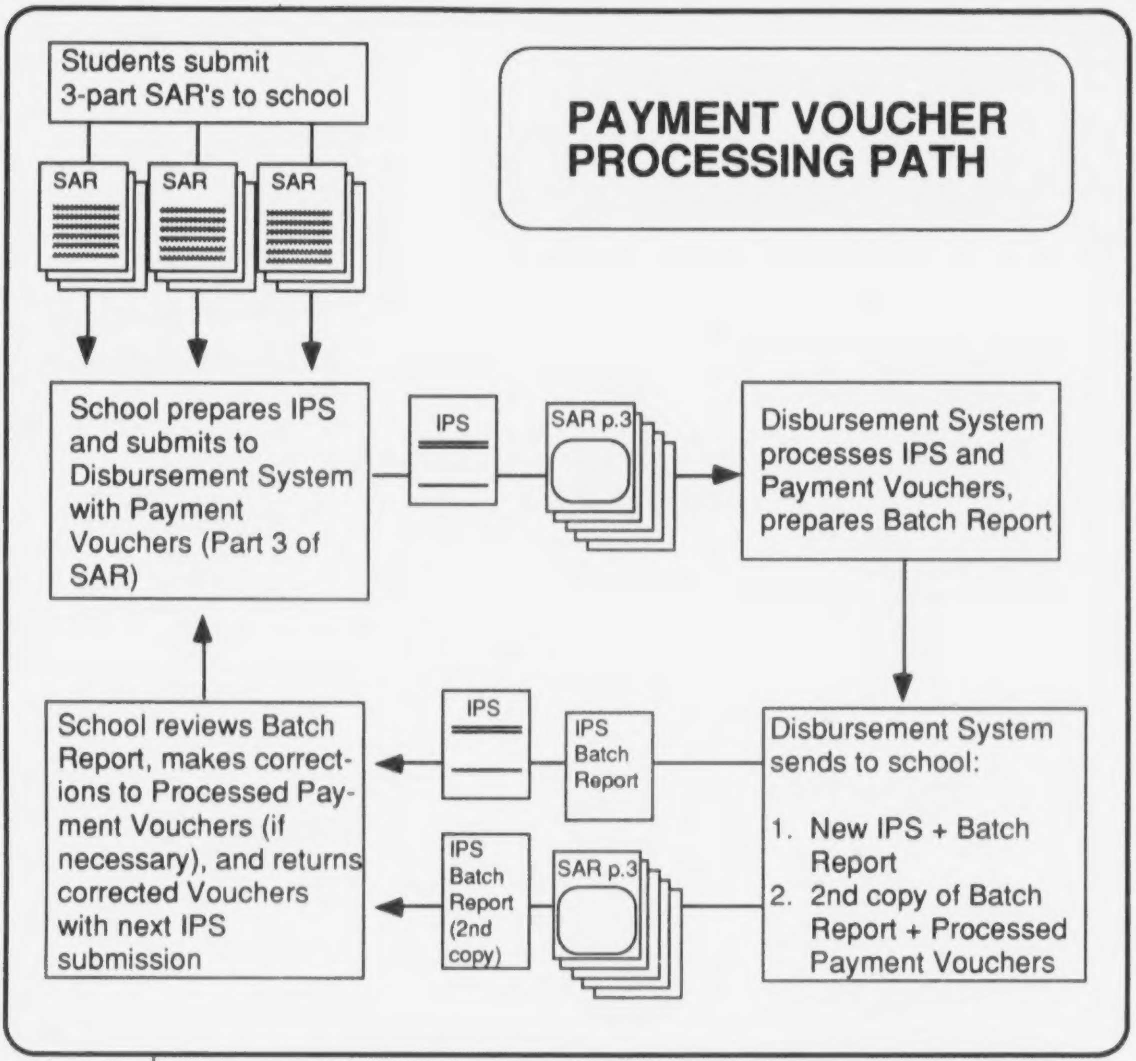
*The Payment Voucher is used to transmit payment information for the Pell Grant Program. The first two parts of the SAR can be used to make awards in *any* of the SFA programs. These two parts are discussed in the 1992-93 *Counselor's Handbook for Postsecondary Schools.*

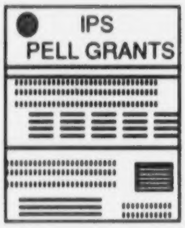

PAYMENT VOUCHER PROCESSING PATH
Students submit 3-part SAR's to school
SAR
SAR
SAR
School prepares IPS and submits to Disbursement System with Payment Vouchers (Part 3 of SAR)
IPS
SAR p.3
Disbursement System processes IPS and Payment Vouchers, prepares Batch Report
Disbursement System sends to school:
1. New IPS + Batch Report
2. 2nd copy of Batch Report + Processed Payment Vouchers
IPS
IPS Batch Report
IPS Batch Report (2nd copy)
SAR p.3
School reviews Batch Report, makes corrections to Processed Payment Vouchers (if necessary), and returns corrected Vouchers with next IPS submission

If the student's situation changes and the anticipated payments will not be made, the school must report this change by resubmitting the Processed Payment Voucher to the Disbursement System. For instance, a student may drop from full-time enrollment in one term to half time in the next, or may no longer be making satisfactory progress, or simply may not return in the second payment period. In each of these cases, the school must adjust the "Amount to be paid" item and any other relevant items on the Processed Payment Voucher and return it to the Disbursement System. (For information on how to fill out the Payment Voucher, see page 4-78.)

federal register
11/6/91
Part II
Department of Education

The November 6, 1991 final regulation requires a school to submit Payment Vouchers for those students whose awards have changed **by the end of the reporting period immediately following the period in which the change occurs.** (For information on reporting periods, see the next page.) This requirement ensures that Federal funds would no longer remain at an institution when its students do not need the funds. Schools that do not submit required reports (Vouchers) or do not submit them on time, and schools that submit incomplete reports, will have their Pell Grant allocation reduced and will be fined.

INSTITUTIONAL PAYMENT SUMMARY



NOTE: Beginning with the 1992-93 award year, the pre-award IPS is eliminated. Schools that formerly used the pre-award IPS* will now receive the "regular" IPS, discussed below.

The Institutional Payment Summary (IPS) is the second important document in the Disbursement System. It serves two purposes: It establishes certain basic information about a school, which is used to determine the school's initial Pell Grant authorization, and it accompanies each batch of Payment Vouchers that schools submit to the Pell Grant Disbursement System during the award year,** summarizing the information about the Vouchers in that batch.

Reporting periods

Schools must submit at least one IPS during each of the reporting periods in the chart below, even if there are no Payment Vouchers to be transmitted for that period. (Again, failure to submit reports on time will result in a fine and reduced Pell Grant allocations.) The number of reporting periods depends on the level of your school's authorization:

Schools with Authorization of $750,000 or more†	Schools with Authorization of less than $750,000†
July 1, 1992—October 15, 1992	July 1, 1992—December 15, 1992
October 16, 1992—December 15, 1992	
December 16, 1992—February 15, 1993	December 16, 1992—April 15, 1993
February 16, 1993—April 15, 1993	
April 16, 1993—June 15, 1993	April 16, 1993—August 15, 1993
June 16, 1993—August 15, 1993	

†Based on Pell Grant Authorization for 1991-92

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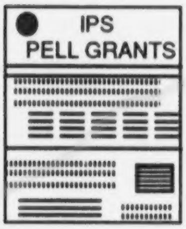
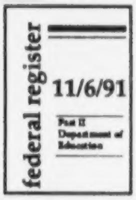
* central campuses and their branches (if the branches have unique Pell ID numbers) who submit hard copy Payment Vouchers instead of tape, electronic, or floppy disk records

** EDE and "floppy disk" schools do not submit a hard copy IPS. RDE schools do not usually submit an IPS unless they plan to submit hard copy Payment Vouchers along with their tapes.



You may submit an IPS more frequently than once every reporting period if there are enough Payment Vouchers to warrant a separate submission. However, you may not submit more than 60 batches during an award year. Note that, in the past, all Payment Vouchers for an award year had to be received by December 31 following the end of the award year (for example, December 31, 1991 for the 1990-91 award year). The November 6, 1991 final regulation has changed this date to **September 30, beginning with the 1991-92 award year.** You may also need to submit an IPS with Vouchers after the end of the award year to report summer school payments, students who complete verification, or outstanding payment data changes.



Adjustments after September 30

Note that adjustments can be made to your Pell Grant account after September 30 if there is an underpayment or overpayment of previously reported awards, or if the Department of Education has made an administrative error.

Adjusting for an underpayment of a previously reported award is permissible if your school submitted a Payment Voucher for a student on time, but did not submit on time a Voucher necessary to document the full amount of the award to which the student was entitled. In such a case, the underpayment must be at least $100, and a program review or audit report must show that the student was eligible to receive an amount greater than that reported on the Payment Voucher submitted.

Adjusting for an overpayment is permitted any time the school determines that a student for whom a Payment Voucher had been submitted received more Pell funds than he or she was qualified to receive. The school may report the reduction to the proper amount, unless the school was not liable for the overpayment; in that case, the school should not report any reduction.

The Department will permit an adjustment after September 30 if the school can demonstrate that its failure to submit Payment Vouchers on time and have them accepted was caused by a processing or administrative error by the Department.

For more information, see the December 30, 1991 FEDERAL REGISTER and the February 1992 Dear Colleague letter, P-92-2.

How to Fill Out the IPS (see the sample IPS on the next page)

Section I

Section I of the IPS contains pre-printed information about the school that reflects the data in the Pell Grant Disbursement System files (for example, the Pell Institution Number in Item 1 or the type of institution in Item 4). Schools use Section I of the initial IPS they receive to establish standard processing information so they can reduce the number of items that must be filled in on individual Payment Vouchers. Schools can review the pre-printed information and request changes, if necessary. If any information is not accurate, draw a line through the incorrect information, enter the correct information, and return the IPS to the address given at the bottom of the form.

Pay particular attention to items 7, 8, and 9. This data can affect the processing of individual student Payment Vouchers during the award year. **Note to branch campuses with unique Pell ID numbers:** You do not have to complete "Academic Calendar" (Item 7) or "Hours in school academic year" (Item 9) if your data is the same as the data your central reporting campus has already reported, or will report, or if you intend to fill in every item on every Payment Voucher you submit during the award year.

Standard costs—"hard copy" schools

"Standard Cost of Attendance" (Item 8) allows schools that submit hard copy Payment Vouchers to establish up to 10 standard cost categories for reporting purposes. Note that this category will not contain any pre-printed information: These costs are not carried forward each award year; they must be reported every year. **Note to branch campuses with unique Pell ID numbers:** Unlike items 7 and 9, the Pell Grant Disbursement System does not use the standard costs of attendance established by your central reporting campus. You must supply any standardized costs you want used for your campus.

Using these categories saves time in filling out Payment Vouchers, because you can fill in on the Payment Voucher a one-letter code representing each cost category rather than the full dollar figure. Once you have used a particular cost category in that award year (by submitting a Voucher for a student with that cost), that standard cost may not be changed. If a standard cost is listed in Item 8 but has not been used, you can draw a line through the computer-printed data and write in a different cost. Once you have established *and used* all 10 lines (A-J), you cannot establish additional or revised standard costs for that award year.

Note that you may not set a standard cost that exceeds the statutory allowances (see Section Two of this Chapter).

THE 1991-92 IPS (expected to be the same for 1992-93)

INSTITUTIONAL PAYMENT SUMMARY FOR

PELL GRANTS

1991-92 AWARD YEAR
PLEASE READ INSTRUCTIONS BEFORE COMPLETING THIS FORM

FORM APPROVED
OMB NO. 1840-0540
Expiration Date
July 1991

SECTION I: GENERAL INFORMATION (Complete only if information below is incomplete or incorrect)

1. Pell Inst. No.:

2. Entity No.:

3. Institution NAME and ADDRESS: ☐ Check here when NAME and/or ADDRESS has been changed and indicate changes below:

4. Type of Institution: 1 ☐ Less than one year 2 ☐ One year but less than two years 3 ☐ Two years but less than three years
4 ☐ Three years but less than four years 5 ☐ Four Years (baccalaureate degree only) 6 ☐ Five years or more

5. Financial Control: 1 ☐ Public 2 ☐ Private, nonprofit 3 ☐ Proprietary

6. 1991-92 Undergraduate Enrollment A. Full-time: B. Part-time (at least half-time):

7. Academic Calendar: 1 ☐ Credit hour (non-standard term) 2 ☐ Quarter 3 ☐ Semester
4 ☐ Trimester 5 ☐ Clock hour

8. Standard Cost of Attendance (per Undergraduate Student):

	Total		Tuition and Fees		Room/Board/ Books/Misc.		Child Care
A. $		= $		+		+	
B. $		= $		+		+	
C. $		= $		+		+	
D. $		= $		+		+	
E. $		= $		+		+	
F. $		= $		+		+	
G. $		= $		+		+	
H. $		= $		+		+	
I. $		= $		+		+	
J. $		= $		+		+	

9. Hours in school academic year (Clock hour; non-standard term credit hour schools only): ____________

10. Payment Frequency: 1 ☐ Two per year 2 ☐ One per term 3 ☐ Two per term
4 ☐ Two terms plus mini-term 5 ☐ Monthly 6 ☐ _____ per ____________

SECTION II: PAYMENT INFORMATION (To be completed on each IPS)

11. Date Enrolled this Award Year (Month and year only): ______ 9__

12. Months in which REMAINING payments will be made for Payment Vouchers submitted with this IPS
☐ July ☐ Aug. ☐ Sept. ☐ Oct. ☐ Nov. ☐ Dec.
☐ Jan. ☐ Feb. ☐ March ☐ April ☐ May ☐ June

CHECK COMPUTATIONS FOR ACCURACY

13. Number of Payment Vouchers/Processed Payment Vouchers submitted with this IPS	13.	
14. Amount Paid to Date (item 6) on Payment Vouchers/Processed Payment Vouchers submitted with this IPS	14.	$
15. Total Payments to date to all Pell Recipients per school records	15.	$
16. Ending Date of Period Corresponding to Amount in item 15 above (Date entered here must not be after the date reported in item 20)	16.	

Official responsible for the INSTITUTIONAL PAYMENT SUMMARY must sign item 17.

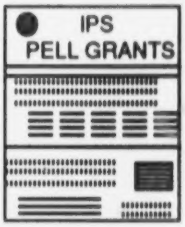
17. Signature: ____________________
18. Name: ____________________
19. Title: ____________________
20. Phone: ____________ Date Signed: ____________
Financial Aid Servicer: Code: _____
21. Signature: ____________________
22. Name: ____________________
23. Corp Name: ____________________ Phone: ____________

MAIL THE IPS TO: PELL GRANT PROGRAM, P.O. BOX 4158, IOWA CITY, IOWA 52244

CERTIFICATION - I certify that I have examined this Institutional Payment Summary, including any accompanying student data, and all information is true and complete to the best of my knowledge. I understand that if I knowingly make false or misleading statements on this report, I am subject to a fine of up to $10,000, imprisonment for up to 5 years, or both, under provisions of the United States Criminal Code (including 18 U.S.C. 1001).

ED FORM 255-3b, 7/91 (20 U.S.C. 1070a, 34CFR 690.84).

Section II is used to report information for students in a particular batch of Payment Vouchers. *Items 11 and 12,* "Date Enrolled this Award Year" and "Months in which REMAINING Payments will be made," will contain information for the majority of students in a batch of Payment Vouchers. Only mark the months for *remaining* payments; *do not* mark the months for payments you have already made. Putting this information on the IPS means that you will only have to fill out items 8 and 9 on the Payment Vouchers for those students who have different dates of enrollment or who will be paid in different months.



Section II

Item #13 is the total number of Payment Vouchers and Processed Payment Vouchers you are submitting in the batch. *Item #14* is the total amount paid to date on those Payment Vouchers and Processed Payment Vouchers. (This amount is derived by adding each amount in Item 6 from each Voucher in that batch.) If you are not submitting Payment Vouchers for a particular reporting period, you must enter "0" for both items 13 and 14.

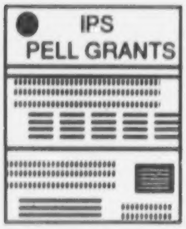
Item #15 is the total dollar amount you have actually disbursed to all Pell Grant recipients. It includes all payments (by check or credit to the account) made during the current award year, up to and including the current reporting period, minus any refunds repaid to your Pell Grant account as of the date given in Item 16. Do not report estimated data for Item 15. Failure to properly report this item could delay the processing of your batch.

The date given in *Item #16* must not be later than the date the IPS was signed.

If your school does not employ a Financial Aid Servicer/Consultant, the signature *(Item #17)* must be the original, handwritten signature of the institutional financial aid administrator officially responsible for the accuracy and completeness of the IPS. A signature stamp is not acceptable. The certification statement applies to all items on the IPS.

In *items #18-19*, print or type the name and title of the person signing the IPS.

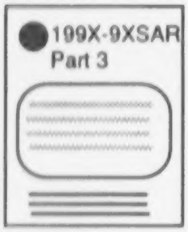
Item #20 contains a pre-printed phone number for the person whose signature appears in Item 17. If the number is incorrect, draw a line through it and enter the correct number, including the area code. The date signed applies to the person whose signature appears in Item 17. The code is also a pre-printed item and is the number for your school's Financial Aid Servicer, if your school contracts for handling of Payment Vouchers. If the number is incorrect, draw a line through it and enter the correct two-digit number. If you do not know the code number, call your Pell Grant Financial Management Specialist at (202) 708-9807.



Item #21 is for the signature of the person representing the Financial Aid Servicer, if your school uses one. *Item #22* is the printed or typed name of the person whose signature appears in Item 21.

Item #23 is for the name of the Financial Aid Servicer. This item is pre-printed—if it is not correct, draw a line through it and enter the correct name.

Complete instructions on the 1992-93 IPS will be issued in a Spring 1992 "Dear Colleague" letter.



HOW TO FILL OUT THE PAYMENT VOUCHER

Carefully filling out the Payment Vouchers for your students ensures that Pell Grant expenditures are accurately reported, which in turn smooths the process of acquiring additional funds, if necessary. Fortunately, many items will not need to be filled in or checked on the Payment Voucher if the correct information has been pre-printed for that item on the IPS, or if you fill in this information on the IPS that you send with a batch. Please be careful to use a copy of your most recent IPS for each batch you submit to ensure that the pre-printed information on the IPS agrees with ED's current data for your school.

If the pre-printed information or the information you filled in on the IPS for a batch does not apply to a particular student, you must complete the appropriate Payment Voucher item(s) for that student. You will also have to fill in an item on the Payment Voucher when there is no pre-printed information on the IPS for that item and you have not filled in the information on the IPS.

Item #1—Pell Institution ID of Campus Attended

In most cases, this item will have a pre-printed institution ID for the school that the student listed as a first choice on his or her financial aid application. If this ID is not your school's number, but you are an independent school with no branch campuses, you do not need to correct the ID—the Pell Disbursement System will use the ID number for your school from the IPS.

If the pre-printed ID number is not your school's number, and you are a central/branch school with branches that have unique Pell ID numbers, this item must reflect the correct branch ID. You will either check the "Yes" box to confirm that the pre-printed ID is the campus the student is attending or fill in the correct branch ID.

The 1992-93 PAYMENT VOUCHER (PART 3 OF THE STUDENT AID REPORT)

Part 3-Payment Voucher (to be completed by the school)

1 PELL INSTITUTION ID OF CAMPUS ATTENDED

002920 ☐ Yes

2 ACADEMIC CALENDAR

☐ 1 Credit hour (non-term)
☐ 2 Quarter
☐ 3 Semester
☐ 4 Trimester
☐ 5 Clock hour

3 COST OF ATTENDANCE (Dollars Only)

A Standard OR B. Individual

☐ A
☐ B
☐ C
☐ D
☐ E
☐ F
☐ G
☐ H
☐ I
☐ J

4 VERIFICATION STATUS

☐ **N** Not Selected
☐ **A** Accurate
☐ **W** Without documentation
☐ **T** Tolerance
☐ **C** Calculated
☐ **R** Reprocessed
☐ **S** Selected, not verified

Verification Worksheet Completed

☐ **Y** Yes

5 TERM-BASED SCHOOLS ONLY

A Enrollment Status

☐ 1 Full-time
☐ 2 Half-time
☐ 3 Three-quarter time
☐ 4 Other

CLOCK HOUR OR NON-STANDARD TERM CREDIT HOUR SCHOOLS ONLY

B Hours expected to complete in all payment periods this award year

C Hours in school academic year

6 AMOUNT PAID TO DATE

☐ **R** Recovery

7 REMAINING AMOUNT TO BE PAID

8 MONTHS IN WHICH REMAINING PAYMENTS WILL BE MADE

Number of months entered below

☐ Jul
☐ Aug
☐ Sep
☐ Oct
☐ Nov
☐ Dec
☐ Jan
☐ Feb
☐ Mar
☐ Apr
☐ May
☐ Jun

9 DATE ENROLLED THIS AWARD YEAR

☐ Jul
☐ Aug
☐ Sep
☐ Oct
☐ Nov
☐ Dec
☐ Jan
☐ Feb
☐ Mar
☐ Apr
☐ May
☐ Jun

☐ 1992
☐ 1993

10

Secondary PGI 00000

☐ 6 Secondary PGI Used

☐ 1 ED use only
☐ 2
☐ 3
☐ 4
☐ 5

MAKE NO MARKS IN THIS BOX

30101019 4AT01200100005

BEST COPY AVAILABLE

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Part 3

Item #2—Academic Calendar

If the academic calendar for the student is the same as that shown on the IPS (Item #7), you do not have to fill in Item #2. However, if the student's academic calendar is not the same, you will have to check the applicable category for that student.

The academic year categories are defined as follows: *Credit hour (non-term)*—Your school does not use standard academic terms but does measure progress by credit hours or units. *Quarter*—Your school uses quarters and measures academic progress by credit hours. *Semester*—Your school uses semesters and measures academic progress by credit hours. *Trimester*—Your school uses trimesters and measures academic progress by credit hours. *Clock hour*—Your school measures academic progress by clock hours.

If your school has programs with different academic calendars, you might wish to group Payment Vouchers according to programs with the same academic calendar and submit them as separate batches. Thus, if your school had some programs using clock hours and other programs using quarter terms, you could submit Payment Vouchers for both types of programs separately. This will enable you to use the IPS (Item #7) to identify the academic calendar for all students in the batch. (To do this separate batching, you may photocopy the IPS you received from the Disbursement System and use copies for each batch you have, provided each IPS contains an original handwritten signature in Item 17.)

The first time you report an alternate academic calendar on your IPS, the batch may be flagged, and you may receive a call to find out if you are making a permanent change, or if you will be using more than one academic calendar throughout the year. To make a permanent change to your academic calendar, you must receive approval from the Division of Eligibility and Certification of the Office of Postsecondary Education.

Item #3—Cost of Attendance

Check the box next to the letter(s) that corresponds to the appropriate standard cost(s) that you established on the IPS. If a student's cost is not covered by one of your standard cost categories, enter the student's cost under "B. Individual."

Item #4—Verification Status

You must complete this item by checking the box next to the correct letter. If you leave this item blank and the student was selected for verification by the application processing system, we will assume the student was paid under "W" ("Without documentation"). Your Pell Grant authorization will be

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Part 3

reduced during the final review of your account for all students whose status is still "W" at the end of the award year.

Enter "S" ("Selected; not verified") when the student has been selected for verification, but you do not verify that student's information because you have reached the 30 percent verification limit.

Note that a Payment Voucher resulting from a first transaction will be rejected if you fill in "R" ("Reprocessed"). See *The Verification Guide, 1992-93* for further explanation of the status codes and the 30 percent verification limit.

Item #5A—Term-Based Schools Only (enrollment status)

Complete this item only if the academic calendar is a quarter, semester, or a trimester. (Check the box beside the appropriate enrollment code.)

If you expect the student's enrollment status to change in a later payment period in the same award year, use the enrollment status "Other" for that student. "Other" indicates a "mixed enrollment status"—for instance, when a student attends full time one term and half time the next.

Item #5B—Clock Hour or Non-Standard Term Credit Hour Schools Only (hours expected to complete)

This item is used along with Item 5C for credit hour programs without standard terms and for all clock hour programs. Fill in the hours that the student is expected to complete in all payment periods occurring in the current award year. If you are paying the student in the current award year for payment periods that are in progress or are already completed, be sure to include them in this total. Keep in mind that the student cannot be paid for more than one academic year of work in one award year.

Item #5C—Hours in school academic year

You do not need to fill in this item if the student's academic year is the same as the pre-printed information for this item or is the same length you reported on the IPS for the batch (Item #9 of the IPS). If you do need to complete this item, remember that the hours in the academic year must be at least the minimum hours specified in the Pell Grant regulations (900 clock hours, 24 semester hours, or 36 quarter hours, for example.)

If your school has programs with different academic years, you may wish to group Payment Vouchers according to programs with the same academic year and submit them as separate batches. (See the discussion under Item #2.) This will enable you to use the IPS (Item #9) to identify the academic year for all students in the batch.

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Part 3

If you submit Payment Vouchers with different academic years in the same batch, you will have to fill in the correct academic year length for those students whose academic year is different from that reported on the IPS.

Item #6—Amount Paid to Date

You must complete this item for all students. Fill in the actual amount you have paid the student (either by check or credit to the account) as of the date you complete the Voucher. If you have not yet paid the student but need to submit the Payment Voucher, write in "0" for payment in the box at the far right.

Only check the box for "Recovery" when correcting a ***Processed*** Payment Voucher to show the net amount of an award after an adjustment has been made to recover an overpayment. For instance, if you make a payment of $1,065 to a student for one payment period, but the student later withdraws and repays $300, you would check "Recovery" on the Processed Payment Voucher for the student and report $765 paid to date.)

Item #7—Remaining Amount to Be Paid

Fill in the amount you expect to pay the student for the remainder of the award year. This amount should take into account the student's expected enrollment status. For instance, if the student is receiving a $642 Pell Grant disbursement as a full-time student in the first of two payment periods but is expected to drop to half time in the second payment period, the "remaining amount to be paid" would be $321. If you have entered $0 for "amount paid to date" because you have not yet paid the student for the first payment period, then the "remaining amount to be paid" for the student in this example would be $963 (for both payment periods).

You must report "0" in Item #7 if you expect no further payments to the student for the award year. Do not leave the item blank. If the value for Item #7 is greater than "0," then you must specify the months in which the remaining amounts will be paid, either on the IPS or on the individual

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Summer School and Other Crossover Payment Periods:

If you use 1992-93 funds to pay a student enrolled in a crossover payment period in the summer of 1992, you should prepare the Payment Voucher as described in items 7 and 8 and submit it in your first batch for this award year.

If you plan to pay a student out of 1992-93 funds for a summer 1993 payment period, it generally will be to your advantage not to notify ED of the payment for next summer (by gridding items 7 and 8) until you are reasonably certain that the student will attend. It is recommended that you do not notify ED until at least January 1993. This will save you effort, as you will have to resubmit Processed Payment Vouchers for all students who were expected to attend the summer payment period but later decided not to attend.

Item #8—Months In Which Remaining Payments Will Be Made

If the "months in which remaining payments will be made" for this student are different from the months you reported on the IPS (Item #12), or if you did not report months to be paid on the IPS, then you must fill in the information here. The Department will authorize funds for the projected payments *in advance* of the months you enter in this item.

If you have students who will be attending a crossover payment period at the end of the award year, and they will be paid in June, July, or August from this award year's funds, fill in the appropriate months in which remaining payments will be made.

Item #9—Date Enrolled This Award Year

You do not have to complete this item if the date enrolled for this student is the same as the date that you entered in Item #11 of your IPS. If the date is not the same, fill in the first date that the student was enrolled in the eligible program for this award year. (For this item, "enrolled" means the first day the student attended classes. Chapter Two discusses the regulatory definition of "enrolled" for student eligibility purposes, which is a slightly different definition.) If the student enrolled in a crossover payment period before the first day of the award year (July 1), report the actual date enrolled for this item, even though that date occurs before the start of the award year.

Item #10—Secondary PGI

Check the box next to number 6 if you wish to pay the student using the Secondary PGI as calculated by the Central Processing System. (You do not have to enter the actual numbers representing the Secondary PGI in the boxes to the right. These boxes have been left in Item 10 for possible future use.) Bear in mind that the primary PGI (printed on the front of the

199X-9XSAR Part 3

Student Aid Report) will almost always be the lower PGI. However, if the student's family includes a dislocated worker or the family has significant medical/dental expenses or elementary/secondary tuition expenses, the secondary PGI may be more advantageous.

NOTE: If you originally entered a Secondary PGI but later determine that you should have paid on the primary PGI, check box number ***1*** on the Processed Payment Voucher for that student. For schools using RDE and EDE, enter the "1" in position 81 of the detailed student payment record.

PROCESSED PAYMENT VOUCHERS AND BATCH REPORTS

The Pell Grant Program will process the Payment Vouchers for your students, which means you will receive new Vouchers containing the printed version of the information you entered by hand. You will also receive a new IPS and an IPS Batch Report.

Package 1

Two separate packages will be sent to your school for each IPS that you submit with Payment Vouchers. Package 1 contains a new IPS to use for your next submission and a copy of your IPS Batch Report. (If you sent in an IPS *without* Payment Vouchers because you had no new students and no changes to previous student data in that reporting period, you will only get back Package 1.)

Package 2

Package 2 contains a second copy of the IPS Batch Report and your Processed Payment Vouchers, grouped by campus and then placed in the following categories:

> ***Rejected*** - The information on these Vouchers is inconsistent. Correct these Vouchers before resubmitting them.
>
> ***Accepted with Assumptions*** - The information on the Voucher was incomplete, so the system made certain assumptions. Review the Vouchers carefully and resubmit them if corrections are necessary.
>
> ***Duplicates*** - These are duplicates of previously accepted Payment Vouchers you have already submitted to us and thus are not counted in the "total amount paid to date" or the "remaining amount to be paid" in the Batch Report. Keep these Vouchers in your files. You do not need to resubmit them unless the award year data changes.
>
> ***Accepted*** - Keep these Vouchers in your files. You do not need to resubmit them unless the award year data changes.

The Processed Payment Vouchers are grouped by campus attended, and then, within that order, by type of Voucher as listed above, and then in alphabetical order.

Batch Report

The first three items on the IPS Batch Report summarize information about the Payment Vouchers you submitted. Items 1 and 2 tell you how many Payment Vouchers the data processor received and how they were processed (for example, accepted or rejected). Item 3 is the total amount paid to date for all the students in that batch (taken from the total of each Item 6 on each Payment Voucher). Note that ED's count in items 1 and 3 should agree with the amounts you reported in items 13 and 14 of the IPS.

The last three items show how your payment data was adjusted for any Payment Vouchers that were rejected, accepted with assumptions, etc. The adjustments made (Item 5) are subtracted from the total payments for the students in that batch, as shown on the Payment Vouchers (Item 4). The result (Item 6) is the change that ED will make to your authorization. (See the sample Batch Report on the next page.)

THE 1991-92 IPS BATCH REPORT (expected to be the same for 1992-93)

IPS BATCH REPORT FOR

PELL GRANTS

1991-92 AWARD YEAR

FORM APPROVED
OMB NO. 1840-0540
Expiration Date
July 1991

Pell Institution Number

Entity Number

This report resulted from your IPS dated ______________ (Item 16 of your IPS)
We received your IPS on ______________
We processed this Batch on ______________
We assigned this Batch Number to your IPS ______________

Information About Your Vouchers/Records

1. Number of Vouchers/Records Submitted to Us in this Batch

a. Your count ______________ (Item 13 of your IPS)

b. Our count ______________

c. Difference between 1a and 1b ______________

2. Number of Processed Payment Vouchers/Records Returned to You for this Batch

a. Rejected (see comments on each Processed Payment Voucher)	______________	Correct these and resubmit to us.
b. Accepted with assumptions (see comments on each Processed Payment Voucher)	______________	Review these and resubmit to us if necessary.
c. Duplicates (of data we already accepted)	______________	Keep these in your files unless award data changes.
d. Accepted	______________	Keep these in your files unless award data changes.
e. Total Processed Payment Vouchers/Records (Sum of 2a, 2b, 2c, and 2d)	______________	

Information About Your Payments

3. Amount Paid To Date for this Batch

a. Your amount $ ______________ (Item 14 of your IPS)

b. Our amount (Item 6 on the Vouchers/Records submitted in this Batch, as we read them) $ ______________

c. Difference between 3a and 3b $ ______________

Information for Reconciliation of this Batch

4. Total Payments (Item 6 plus Item 7 on the Vouchers/Records submitted in this Batch, as we read them) $ ______________

5. Adjustments We Made

a. Changes we made because of Vouchers/Records we rejected (counted in 2a) $ ______________ -

b. Changes we made because of Vouchers/Records we accepted with assumptions (counted in 2b) $ ______________ -

c. Changes we made because of Vouchers/Records for duplicates (counted in 2c) $ ______________ -

d. Total Payments we previously accepted for students submitted in this Batch (not including duplicates in 5c) $ ______________ -

e. Total of the adjustments we made (Sum of 5a, 5b, 5c, and 5d) - $ ______________

6. Net Adjustment to your Payment data as a result of this Batch (Difference between 4 and 5e) $ ______________

ED FORM 255-3c 7/91

REPORTING CHANGES ON THE PROCESSED PAYMENT VOUCHERS

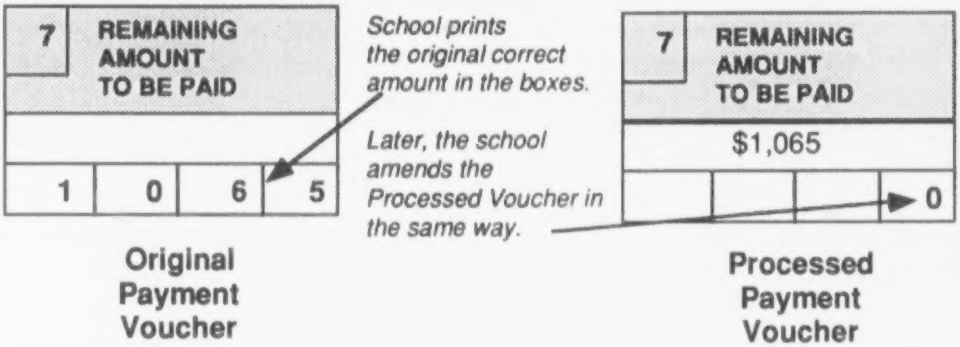
If the Processed Payment Vouchers you have received are accurate and there are no changes to the students' awards, simply retain these Vouchers in your files. However, if the information for any student is wrong or changes during the award year, you may have to correct the Processed Voucher and resubmit it with your next IPS. (See the next page for corrections that do not have to be made.) Corrected Vouchers must be submitted no later than the end of the reporting period following the period in which the change occurred. As mentioned earlier, the November 6, 1991 final regulation emphasizes this point. Failure to submit reports on time will result in fines and in reduced Pell allocations.

federal register
11/6/91

Making corrections on the Payment Voucher itself

Corrections are made by filling in the correct information in the blocks under the pre-printed information. (See the example below.) Note that ED never uses the information on the IPS to change the information on a Processed Payment Voucher. You have to make the correction on the Processed Voucher.

EXAMPLE : A student enrolls in a program with two terms that make up one academic year. The student has a Scheduled Award of $2,130 and is enrolled full time. The school uses Part 3 of the student's SAR to report a $1,065 payment (Item 6), with $1,065 remaining to be paid (Item 7). The student completes the first term but does not return for the second term, so the school amends Item 7 on the Processed Payment Voucher to show no further payment to the student.


7
REMAINING AMOUNT TO BE PAID
1
0
6
5
School prints the original correct amount in the boxes.
Later, the school amends the Processed Voucher in the same way.
7
REMAINING AMOUNT TO BE PAID
$1,065
0
Original Payment Voucher
Processed Payment Voucher

The most frequently required changes are to cost of attendance,* verification status (to update a "W"—payment without documentation), enrollment status (term schools), and payment amounts and dates. Other changes occur less frequently, except in cases of error. For instance, one would not expect the institution's academic calendar to change during the award year.

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*Usually, only changes to costs under $4,000 will be reported, since changes to costs above $4,000 will not affect the student's award.

Optional corrections

Some corrections do not substantially affect the student's award and need not be reported to the Department:

Academic Calendar (Item #2) —You do not have to report a change from one type of standard academic term to another (for example, from a quarter system to a semester system). However, changes from a credit hour to clock hour calendar, for example, must be reported.

Cost of Attendance (Item #3) —You do not have to report a change that does not increase or decrease the amount the student will be paid for the year (Amount paid to date + Remaining amount to be paid).

Verification Status (Item #4) —If the verification status accepted by the Pell Grant Program for the student was N, A, T, C, S, or R, you do not have to report a change to that status. If the student's status was "W," you must report a change to that status once you receive full documentation from the student and you complete verification.

Enrollment Status (Item #5A—for Term-Based Schools Only) —You do not have to report a change to enrollment status that does not increase the amount the student will be paid for the year (Amount paid to date + Remaining amount to be paid).

You will have to report a change in enrollment status if a student attends for a longer period than expected and the result is a greater award. For example, if you have a three-quarter-time student who decides to attend summer school as a three-quarter-time student, you must change Item #5A to "Other" at the same time you report the additional amount paid in Item #7. If you leave the student's status as three-quarter-time, the system assumes that the student's three-quarter time award is being exceeded, and your Payment Voucher will be rejected.

Hours expected to complete (Item #5B) —You do not have to report a change to this item if the change does not increase the amount the student will be paid for the year (Amount paid to date + Remaining amount to be paid).

Months in Which Remaining Payments Will Be Made (Item #8)—You do not have to report changes to this item. However, we encourage you to report changes if they apply to a significant number of your students, so that your funding can be adjusted accordingly.

STUDENT PAYMENT SUMMARY

The Student Payment Summary (SPS) lists the student data in ED's records for each Pell Grant recipient for whom you submitted a Payment Voucher for the award year. The SPS enables you to check your records to determine any additions and changes to your student data that you need to report to the Department, or any corrections you need to make in your institutional records. An SPS is routinely sent to each school for review at least twice during the award year as well as at the end of the award year. (You may also request an SPS during the award year by writing the Pell Grant Program, P.O. Box 4158, Iowa City, Iowa 52244-4158, or by calling your Financial Management Specialist on (202) 708-9807.)

The SPS reflects each Payment Voucher/record for the award year (as of the date in the upper right corner) that the Department has either accepted, or rejected but retained in its records. The SPS **excludes** Vouchers/records that ED rejected and did not retain, as well as Vouchers/records your school submitted that duplicated data already accepted.

Students are listed on the SPS in Pell Institution Number order by the attended campus you reported, then alphabetically by student last name. ED provides summary statistics of all student activity at the end of each attended campus and, for your entire institutional system, at the end of your SPS.

Appendix 1 at the end of this SPS discussion gives an item-by-item description of your SPS. Appendix 2 describes the circumstances under which your SPS may list some of your Pell Grant recipients more than once.

What to Do with the Student Payment Summary

Comparing school records to SPS

You should use your SPS to confirm that ED has received **and accepted** student payment data for all of the Pell Grant recipients you have paid, up through the date in the upper right corner of the SPS. You start by comparing your institutional student records to your SPS to confirm that each of your Pell Grant recipients appears at least once. If you find students missing, you need to report them to ED **immediately**. Do not wait until the end of the reporting cycle, as this will not give you sufficient time to resolve your questions or any reporting errors before the final program deadline for submitting student-level data, **which is September 30.**

Students missing from SPS

You should account for each missing student in one of the following three categories:

- You submitted the student's record to ED, but it was rejected due to reporting errors—your IPS Batch Report (2a) shows the number of rejected records for each of your batch submissions.
- You submitted the student's record, but ED did not receive it—your IPS Batch Report (1c) shows any discrepancies in the number of Vouchers/records you reported and the number received for each submission.
- You have not yet submitted the student's record to ED, either inadvertently or for other reasons.

You should review your institutional student records to verify that your payment to each of your Pell Grant recipients agrees with the "Total Payment Amount" ED has accepted, as shown on your SPS. ("Total Payment Amount" equals the sum of Payment Voucher items 6 and 7.) If you find a difference, you need to either report the revised payment amount(s) to ED or correct your institutional records for the student.

You should use your Processed Payment Vouchers/records and your IPS Batch Report as ED returns them to you to reconcile your institutional records. If you then use your SPS as you would your checking account monthly statement, you can verify that your records agree with ED's, or identify the additions and/or changes you need to report in your next submission. You report your additional Pell Grant recipients or your payment amount changes through whatever media you normally use (hard copy, Recipient Data Exchange, Electronic Data Exchange, or Floppy Disk Data Exchange). Don't forget to include an IPS with any hard copy Payment Vouchers you submit. Remember that you must report any changes in the Pell Grant amount no later than the end of the reporting period that immediately follows the reporting period in which the change occurred.

Special Conditions You Should Note

"W" verification status

The Summary Statistics page gives you a count of any student records with a verification status of "W" (Without documentation). As mentioned in Section Four of this chapter, you may not make more than one disbursement for a student selected for verification until the student supplies documentation to verify or correct the application data. Therefore, ED will honor no more than one-half of the student's Scheduled Pell Grant Award if you report, or ED assumes, a verification status of "W." You and the student must complete the verification process by the applicable deadline —but no later than the expected deadline of August 30, 1993. (Watch the FEDERAL REGISTER for the deadline notice.)

Must revise "W" status

As soon as you complete verification, you must submit an acceptable Payment Voucher/record to ED, revising the student's verification status and amount(s) ED accepted for payment. Please carefully review any student record on your SPS with a verification status of "W" and complete your reporting promptly. After the final mandatory reporting period ends on August 15, 1993, ED will reduce the accepted payment to $0 for any students whose verification status remains "W," and will make a corresponding reduction in your Pell Grant authorization. ED will also reject in entirety any Payment Vouchers/records you submit, after the expected deadline of August 30, 1993, to which a "W" applies.

Total payments to date: SPS vs. IPS

The first Summary page for your entire institutional system (at the end of your SPS) lists the "Total Payments to date to all Pell Recipients per school records" (IPS Item 15) from your latest submission. (Under Recipient Data Exchange or Electronic Data Exchange, positions 17-25 of the trailer record correspond to IPS Item 15; under Floppy Disk Data Exchange, you use the Header/Trailer information screen to enter this figure.) Please compare your IPS (or equivalent) Total Payments to date, which is also referred to as Net Expenditures, to the "Total Payment Amount (Item 6 + Item 7)," summarized from your Processed Payment Vouchers/records shown on your SPS. Appendix 3 at the end of this SPS discussion describes the steps you should take to account for the entire difference between these amounts to verify that your reporting to ED reconciles. Differences for which you cannot account generally result from one of four conditions:

Common differences in SPS vs. IPS

- The "Total Payments to date to Pell Recipients per school records" you reported on your last IPS (or equivalent) incorrectly reflected **only** the total payments to the students in that particular batch. In Item 15, you must report the total amount you have paid to **all** your Pell Grant recipients, through the date you prepare your IPS, less any recoveries restored to your Pell Grant account.

- The "Total Payments to date to Pell Recipients per school records" on your last IPS (or equivalent) incorrectly included cents, exceeded your Pell Grant authorization, or did not agree with your actual payments (that is, you reported zero).

- You accurately reported the "Total Payments to date to Pell Recipients per school records" (IPS Item 15 or equivalent) on your last batch submission, but you have not yet reported all your student payment data changes and/or additional recipients.

- The payment amount you originally reported to ED exceeded the amounts ED could accept, based on the other data you reported for the student, and ED disallowed the excess. If the data upon which ED based the disallowance properly reflects the student's award information, **you must adjust your institutional records** to the correct payment amount and recover any excess from the student.

Resolving discrepancies

Appendix 3 also describes the steps you should take to confirm that your current institutional Pell Grant payments agree with the student payment data you have reported. These steps should assist you in verifying that you have identified all discrepancies between ED's records for your Pell Grant recipients and your institutional records, so that you can submit any payment data changes or additional students you still need to report. If you find that any of these conditions apply to your institution, you need to resolve the inconsistencies promptly.

ED provides the SPS to allow you time to review it and submit your payment data changes and additional recipients **(including any rejected student records)** as soon as possible. Appendix 4 describes common errors that cause rejected records or assignment of a "W" (Without documentation) verification status code. As mentioned earlier, you need to complete your reporting of all changes and new recipients no later than the end of the reporting period following the reporting period in which the change or addition occurs. You should report changes or additions that occur during the mandatory reporting period that ends August 15, 1993 on or before that date to assure that the September 30, 1993 deadline does not adversely affect your payments to your students or your Pell Grant authorization.

If you have any questions about your SPS, please call the Financial Management Section at (202) 708-9807.

Appendix 1
ITEM-BY-ITEM DESCRIPTION OF YOUR STUDENT PAYMENT SUMMARY

UPPER LEFT HAND CORNER OF YOUR SPS:

CENTRAL ADMINISTRATIVE OFFICE (REPORTING CAMPUS). Your institution's Pell Institution Number, name, and address.

REPORT FOR STUDENTS ATTENDING. The Pell Institution Number, name, and address of the institution actually attended by the students listed. If your institutional system has branch campuses with unique Pell Institution Numbers, ED produces a separate section for each Attended Campus.

STUDENT INFORMATION:

STUDENT NAME. The student's full name, as reported to the Federal Student Aid Application Processing System for the Transaction Number shown.

SOC SEC NO OR PELL ASSIGNED ID. The student's **current** Social Security Number, as reported for the Transaction Number shown, or the Federal Student Aid Identification Number (a hyphen followed by eight numbers) assigned by the Federal Student Aid Application Processing System for students not required to provide a Social Security Number.

DATE OF BIRTH. The student's date of birth (MMDDYY), as reported to the Federal Student Aid Application Processing System for the Transaction Number shown.

TRANS NO. The two-digit Transaction Number assigned by the Federal Student Aid Application Processing System to identify uniquely a particular record for a student. This number indicates the specific SAR you submitted to ED and on which you based payment.

PELL GRANT INDEX (PGI). The student's eligibility for a Pell Grant, as determined by the Federal Student Aid Application Processing System for the Transaction Number shown. **This PGI appears on both the front and back of the Payment Voucher (Student Aid Report Part 3).** ED uses this PGI in automated data exchange processing (Recipient, Electronic, and Floppy Disk Data Exchanges) to match your student payment records with the corresponding eligible applicant record. Unless you indicate that you based payment on the Secondary PGI, ED uses this PGI for payment purposes. An asterisk appears to the right of the PGI for students selected for verification by the Federal Student Aid Application Processing System. (See Secondary PGI below for further information on Primary and Secondary PGI's.)

PROCESSED PAYMENT VOUCHER/RECORD INFORMATION:

The numbers in parentheses correspond to the item numbers on the Processed Payment Voucher.

(10-6) SECONDARY PGI. The Secondary PGI, if any, calculated for the student by the Federal Student Aid Application Processing System. The application processing system establishes Primary and Secondary Pell Grant Indexes as follows:

> Primary PGI—If the applicant qualifies for the simplified formula, the Primary PGI reflects this calculation; if not, the Primary PGI reflects the regular formula calculation.
>
> Secondary PGI—If the applicant qualifies for the simplified formula but also provides complete data, the Secondary PGI reflects the regular formula calculation; otherwise, the Secondary PGI remains blank.
>
> The Primary PGI and the Secondary PGI, if any, appear at the top of both the Student's Use Box on Part 1 of the SAR and the School Use Only box on Part 2 of the SAR. The Primary PGI appears on the front of parts 1 and 2 of the SAR and on both the front and back of the Payment Voucher (SAR Part 3) in all cases EXCEPT ONE: If the Primary PGI makes the applicant ineligible for a Pell Grant, but the Secondary PGI makes the applicant eligible, the Secondary PGI appears on the front and back of the Payment Voucher (and on the front of parts 1 and 2). For these students, you use the PGI printed on the Payment Voucher in, and directly above, the "Make no marks in this box" block **as is;** do not indicate that you based payment on the Secondary PGI.

(10) PGI USED. The Pell Grant Index you reported as the basis for the student's award. A "6" indicates you based the award on the student's Secondary PGI, that is, on the PGI shown in Item 10 on the Payment Voucher. A "1" indicates you originally reported you used the Secondary PGI and then updated the record to change back to the usual PGI, that is, the PGI shown in, and directly above, the "Make no marks in this box" block and on the front of the Payment Voucher.

(2) ACAD CAL. The student's academic calendar.

(3) COST OF ATTENDANCE. The student's cost of attendance. Standard cost letters A through J will precede the cost if you used one of the standard costs you established using your IPS.

(4) VERIFICATION STATUS. The current status of verification of the student's application data. For each active student record shown with a verification status of "W" (Without Documentation), you must submit an update to the student's record to indicate you completed the verification process. Until ED receives and accepts your update, ED will only honor up to one-half of the student's Scheduled Pell Grant Award. ED must reduce the student's award to $0 if you do not report an acceptable verification status code.

(5A) ENROLLMENT STATUS. The student's enrollment status (full time, half time, three-quarter time, other) if enrolled in programs measured by standard academic terms—otherwise, blank.

(5B) HOURS EXPECTED TO COMPLETE. The number of hours you expect the student to complete in all payment periods in this award year if the student is enrolled in a program that measures progress in clock hours or non-standard term credit hours—otherwise, blank.

(5C) HOURS IN SCHOOL ACADEMIC YEAR. The number of hours in the school academic year for the program in which the student is enrolled, if the program measures progress in clock hours or non-standard term credit hours—otherwise, blank.

(6 + 7) TOTAL PAYMENT AMOUNT. The total payment for this award year that ED accepted for the student. This amount equals the sum of Amount Paid to Date (Item 6) and Remaining Amount To Be Paid (Item 7). If the Total Payment Amount shown disagrees with the actual, **valid** Pell Grant payments you will make to the student, you must provide corrected student payment amount(s) to ED. A blank Total Payment Amount indicates an inactive payment record (see **ACT** on the next page).

REC STA. The current status of the student's data in ED's records, which corresponds to the categories in Section 2 of your IPS Batch Reports. The status codes are—

E—Rejected with errors; record retained in the Pell Grant files (2a on your IPS Batch Report). You must correct the errors and resubmit them to ED.

A—Accepted with assumptions; record retained in the Pell Grant files (2b on your IPS Batch Report). You must review these carefully and resubmit updates if ED's assumptions do not agree with the student's award information.

I—Accepted as reported by the institution; record retained in the Pell Grant files (2d on your IPS Batch Report). You need to submit updates **only** if the student's award data changes, or you need to resolve a verification status code of "W."

ED provides the record status code in position 80 of processed payment data records returned to you on tape or electronically; for Floppy Disk Data Exchange users, it appears on the Record Status query screen. Each status also corresponds to a specific comment, which is printed on Processed Payment Vouchers. **IMPORTANT:** Your SPS does ***not*** include student payment records rejected in entirety (Record Status "R") or records you submitted that duplicated payment data already accepted (Record Status "D"). You must correctly submit payment data for rejected records to receive credit for your payments to these students in your Pell Grant authorization.

BATCH NO. The number assigned to the batch of Vouchers/records for your most recent submission of this record for the student. ED provides this number in positions 107-114 for records returned to you by tape or electronically; for Floppy Disk Data Exchange users, this number appears on the Processed Payment Data screens. The Batch Number is also printed on your IPS Batch Report and as the first comment on each Processed Payment Voucher.

ED USE ONLY:

SAR RECORD ID. The student's unique identifier in ED's payment records. The SAR Record ID consists of—

Original Social Security Number—the Social Security Number reported on the student's original application for the award year, or the Federal Student Aid Identification Number (a hyphen followed by eight numbers), as assigned by the Federal Student Aid Application Processing System if the student did not provide a Social Security Number on the original application

Original Name Code—the first two letters of the student's last name, as reported on the student's original application

Transaction Number—sequentially assigned by the Federal Student Aid Application Processing System to uniquely identify a particular applicant record for a student

SEG NO. Segment Number, as assigned in ED's payment records to uniquely identify a particular payment data record for a student. When you submit changes to previously reported data, ED uses this number to find the corresponding student record in its payment records. ED provides the segment number in positions 116-117 in processed records returned to you by tape or electronically; for Floppy Disk Data Exchange users, this number appears on the Processed Payment Data screen. On Processed Payment Vouchers, the Segment Number is printed as the first two numbers in the "Make no marks in this box" block on the back (Side 2).

ACT. The status of the student's payment data relative to your Pell Grant account. Current (active) payment records appear with a "<"; inactive records have nothing in this column. If you receive your SPS on tape, inactive payment records contain an "I" in position 320. ED honors payment on only one record per student for each attended campus. If your institutional system has branch campuses with unique Pell Institution Numbers, and a student has attended more than one of these campuses, you must review ***all*** of the student's active payment records to verify that you have not overpaid the student. If the sum of "Total Payment Amount" across all of the campuses the student attended exceeds the Pell Grant amount the student should have received, you must submit corrections reducing the student's payments for each applicable attended campus.

SUMMARY DATA:

ED provides summary data pages at the end of your SPS. Pages 2 and 3 of this summary data are produced for each attended campus you reported for your students; Page 1 of the summary data is provided for the Central Administrative Office (Reporting Campus) only.

SUMMARY DATA - PAGE 1:
INFORMATION REPORTED ON YOUR LATEST INSTITUTIONAL PAYMENT SUMMARY

DATED XX/XX/XX. Ending Date of the period corresponding to the amount in Item 15. The date corresponds to Item 16 on your IPS, or to positions 20-25 in the header record of tape or electronic submissions. Floppy Disk Data Exchange users enter this field in the Header/Trailer information screen.

TOTAL PAYMENTS TO DATE TO PELL RECIPIENTS PER SCHOOL RECORDS (ITEM 15). This should represent your total payments, less any recoveries you have restored to your Pell Grant account, for **all** your Pell Grant recipients through the date in the upper right corner of the SPS. Under Recipient and Electronic Data Exchange, positions 17-25 of the trailer record correspond to IPS Item 15; under Floppy Disk Data Exchange, you use the Header/Trailer information screen to enter this figure. If you misreported this amount on your last report to ED, you need to report your corrected "Total Payments to Date" figure to ED as soon as possible.

APPENDIX 1

INFORMATION SUMMARIZED FROM PROCESSED PAYMENT VOUCHERS/RECORDS ON THIS REPORT:

TOTAL AMOUNT PAID TO DATE (ITEM 6). Total amount ED has accepted to date for Amount Paid to Date (Item 6) for the Payment Vouchers/records you have submitted.

TOTAL REMAINING AMOUNT TO BE PAID (ITEM 7). Total amount ED has accepted to date for Remaining Amount to be Paid (Item 7) for the Payment Vouchers/records you have submitted.

TOTAL PAYMENT AMOUNT (ITEM 6 + ITEM 7). Total student payments ED has credited to your institution for the students you reported and ED has accepted, that is, those who appear on this report. This total, less any payments you reported in Item 7 but had not made through the date you indicated in Item 16, will equal the Total Payments to date to Pell Recipients per school records (IPS Item 15 or equivalent) listed above. If you have reported all your Pell Grant recipients and payment data changes, this total should also agree with your institutional records through that same date. You must resolve any discrepancies and submit your changes to ED.

TOTAL UNDUPLICATED RECIPIENTS. The number of individual students (unique combination of original Social Security Number and original name code) on this report. ED uses this number to calculate your administrative allowance. For single campus institutions, this should agree with your total number of Pell Grant recipients. If it does not, you need to resolve the discrepancy.

TOTAL ACTIVE STUDENT RECORDS. The number of current payment records ED has for your students and has credited toward your Pell Grant account. You should have at least one current payment record for **each** of your Pell Grant recipients. If your institutional system has branch campuses with unique Pell Institution Numbers, and this count exceeds the number of unduplicated recipients above, it indicates that some students have attended more than one of your campuses. You must carefully review your payments to these students to confirm that you have not overpaid them.

TOTAL RECORDS ON THIS REPORT. The total number of student records, current and inactive, on this report.

TOTAL NUMBER OF ATTENDED CAMPUSES. The number of different attended campuses you have reported for your students. If all your students have the same Reporting and Attended Campus, a zero appears here.

INFORMATION SUMMARIZED FROM ITEM 2 OF YOUR IPS BATCH REPORTS:

These counts provide the cumulative total for each listed item from all of the IPS Batch Reports sent to you to date for the award year. ED provides these counts only for your information to give you a record of your total activity and to highlight the number of records rejected, accepted with assumptions, duplicated, and accepted. Do ***not*** try to balance these figures with the individual student detailed listing of your SPS.

SUMMARY DATA—PAGE 2

PELL GRANT INDEX AND PAYMENT AMOUNT STATISTICS. This summarizes your current payment records by PGI range. ED also provides the average amount paid each student within each range, the overall average PGI, and the average payment amount.

COST OF ATTENDANCE STATISTICS. This summarizes your current payment records by Cost of Attendance range. ED also provides your overall average Cost of Attendance.

VERIFICATION STATUS STATISTICS. This summarizes your current payment records according to each of the verification status codes. You use the "W" (Without documentation) count to determine the number of students for whom you must still report completion of the verification process to ED.

INFORMATION SUMMARIZED FROM PROCESSED PAYMENT VOUCHERS/RECORDS. This provides the totals for Amount Paid to Date (Item 6), Remaining Amount to be Paid (Item 7), and Total Payment Amount (Item 6 + Item 7) for the current payment records at the attended campus shown in the upper left corner. These figures appear only on Page 1 for single campus systems.

FREQUENCY DISTRIBUTION FOR STANDARD COST USAGE. This summarizes your current payment records by the Standard Cost(s) of Attendance you have reported on your IPS. ED lists both the alpha character and the corresponding dollar value next to it.

FAA PGI ADJUSTMENT STATISTICS. This summarizes your current payment records by PGI used for payment. A non-zero count for Type 1—Orig. PGI indicates that you reported you used the Secondary PGI for a student, then updated that record to indicate payment on the original PGI.

APPENDIX 1

SUMMARY DATA - PAGE 3:

RECIPIENT COMMENTS SUMMARY STATISTICS. This cumulative summary provides a capsule picture of the number of error and assumption comments ED used in processing your student payment data to date. You should use these counts to identify any recurring problems you need to correct in your reporting.

APPENDIX 2

Appendix 2
WHAT CAUSES A STUDENT TO APPEAR ON YOUR SPS MORE THAN ONCE

Your SPS will list a student more than once for a single attended campus when you report that student to ED using a different SAR, or when you change the type of academic calendar. ED honors payment on only one record per student for each attended campus. As mentioned in Appendix 1, current (active) payment records appear with a "<" on the far right of the student entry in your detailed listing. You should carefully review any student who appears more than once to confirm that the current payment record for the student in ED's records agrees with the SAR on which you based payment.

ED establishes another record for a student, and reduces the payments accepted on the prior record to $0, in two cases:

1. **Transaction Number.** The two-digit Transaction Number assigned by the Federal Student Aid Application Processing System uniquely identifies a particular applicant record for the student. It indicates the specific SAR on which you based payment to the student. Each Transaction Number you submit for a student will create a new record. The **last** transaction you sent ED that was accepted always becomes the current record for the student, even if you reported a higher Transaction Number earlier.

Example:

Transaction 01	Original application—rejected
Transaction 02	Result of applicant corrections—PGI of 310
Transaction 03	Result of applicant corrections—PGI of 1507

The student turns in Transaction Number 03, and you report it to ED. You later determine that the student has Transaction Number 02, which meets the definition of a valid SAR. You report Transaction Number 02 to ED, which is accepted; ED **automatically** reduces the payment amounts on Transaction Number 03 to $0.

APPENDIX 2

2. Academic Calendar. ED establishes a new current record for a student when you report any of the following academic calendar changes:

	From	To
a.	Standard term academic calendar (quarter, semester, trimester)	Clock hour or credit hour (non-standard term)
b.	Clock hour or credit hour	Standard term academic calendar (quarter, semester, trimester)
c.	Credit hour (non-standard term) calendar	Clock hour academic
d.	Clock hour academic calendar	Credit hour (non-standard term)

APPENDIX 3

Appendix 3
RECONCILIATION OF STUDENT PAYMENT DATA TO NET EXPENDITURES USING YOUR STUDENT PAYMENT SUMMARY

A. Reconciliation of your student payment data to your latest IPS

Example

IPS dated	12/01/92
Total Payments to date to Pell Recipients per school records (IPS Item 15 or equivalent)	$12,414
Total Payment Amount (Item 6+Item 7)	14,735
Total Amount Paid to Date (Item 6)	8,238
Total Remaining to be Paid (Item 7)	6,497

Step 1. From your institutional records, determine the payments you had not yet made through the date of your last IPS. **Example:** $2,700 remained to be paid as of the 12/01/92 posting date in your general ledger.

Step 2. Deduct result of Step 1 from the Total Payment Amount on your SPS. **Example:** $14,735 - $2,700 = $12,035.

Step 3. Compare result in Step 2 to the Total Payments to Date to Pell Recipients per school records (IPS Item 15 or equivalent). **Example:** Compare $12,414 to $12,035; the difference is $379.

Step 4. Account for any discrepancy in the following categories:

a. Payments you included in your Net Expenditures (IPS Item 15 or equivalent) for recipients you have not yet reported

b. Payments you included in your Net Expenditures for recipients you reported but ED rejected

c. Payments you included in your Net Expenditures but ED disallowed

d. Payments you included in your student payment data but omitted from your Net Expenditures

e. Recoveries you have restored to your Pell Grant account but have not reported to ED as changes to your student payment data

If you cannot reconcile your student payments to your Net Expenditures in this manner, you may have misreported your Net Expenditures. You need to report these corrections promptly.

Please keep in mind that—

- your Total Payments to date to all Pell Recipients per school records (IPS Item 15 or equivalent) **should never exceed** your Pell Grant authorization—you cannot pay more Pell Grant funds than ED has authorized.
- your Total payments to date (Net Expenditures) should equal or exceed the total Amount Paid to Date (Item 6) listed on your SPS, unless you have already recovered some of those payments.
- your Net Expenditures should not exceed the Total Payment Amount (Item 6 + Item 7) listed on your SPS. If this occurs, you either need to report additional recipients and payment amount adjustments **or** lower your Net Expenditures.
- your Net Expenditures should equal the Total Payment Amount (Item 6 + Item 7) after you make all payments and report all payment adjustments to ED. If you identify major discrepancies, you need to correct your reporting errors now so that your next SPS will reflect more complete and reconcilable data.

B. Reconciliation of your Pell Grant student payments to your institutional records

Step 1. Take the reconciled student payment total from Step 4 on the preceding page and add to that figure any payments you have made since the date of your last IPS.

Step 2. Compare the result from Step 1 to your institutional records.

Step 3. Account for any discrepancy in the same manner as described in Step 4 on the preceding page.

Step 4. Adjust your institutional records and/or report your new recipients and payment amount adjustments to ED to reconcile your Net Expenditures, student payments, and institutional records.

Appendix 4
COMMON ERRORS CAUSING REJECTION OF RECORD SUBMISSIONS OR ASSIGNMENT OF VERIFICATION STATUS "W"

When you submit a student payment record that ED rejects, it indicates a severe reporting error that cannot be corrected using standard assumptions. To receive credit in your Pell Grant authorization for your payments to these students, you must determine the cause of the reporting error from the processed record ED returns to you, correct the erroneous data, and resubmit the student's record before the reporting deadline for the award year. To help you avoid reporting errors, or to correct any you have encountered to date, please review the following guidelines. The percentages in parentheses indicate the number of transactions ED rejected for that particular reason in 1990-91.

A. Rejected Records

1. All media types (hardcopy, tape, electronic, floppy diskette)

    a. **Invalid Attended Campus (0.890%)**—If your institutional system has branch campuses with unique Pell Institution Numbers, you must provide one of these valid numbers as the student's attended campus. You may not leave this item blank. If the preprinted Pell Institution Number in Item 1 of the Payment Voucher does not match your Attended Campus's Pell Institution Number, **DO NOT** check the "Yes" block.

    b. Invalid Verification Status Code Submitted After Verification Deadline (2.087%)—If you report an invalid verification status code after the deadline for verification, we reject the record in entirety. Invalid codes include—

N—Not Selected: This is an error if an asterisk appears to the right of the student's PGI—the student ***was*** selected for verification by the Federal Student Aid Application Processing System.

R—Reprocessed: This is an error if the Transaction Number on which you made payment and on which you reported to ED is **01**—this is the **original** application. A **reprocessed** applicant transaction cannot have a Transaction Number of 01.

W—Without documentation: This will be rejected if the verification deadline has passed and the payment(s) to the student exceeds $0.

c. Secondary PGI—(1.710%): If you indicate you based payment on the Secondary PGI, but that PGI exceeds 2200, the record will be rejected. ED cannot honor Pell Grant payments to ineligible students.

2. Automated Data Exchange (tape, electronic, floppy diskette)

Four data fields submitted by tape, electronically, or by floppy diskette account for 95.313% of all the transactions rejected. By using the correct sources for these fields, you can virtually eliminate all such errors in your submissions and you can be assured that you receive credit in your Pell Grant authorization for your payments to these students. All of these fields appear on the back (Side 2) of the Payment Voucher directly above the "Make no marks in this box" block from the SAR you accepted for payment. You should check your data entry procedures and your automated systems carefully to avoid these unnecessary errors.

a. Original Social Security Number (34.141%)—Do ***not*** use the SSN from the front of the Payment Voucher (or other parts of the SAR). This is RDE/EDE Reject Comment 01.

b. Original Name Code (13.724%)—Do ***not*** use the student's name from elsewhere on the SAR. **Do** include special characters and blanks if present. This is RDE/EDE Reject Comment 02.

c. Transaction Number (16.823%)—Report the two-digit Transaction Number from the SAR on which you based payment, that is, a valid SAR with an eligible PGI (0 through 2200). This is RDE/EDE Reject Comment 03.

d. Pell Grant Index (30.625%)—Report the four-digit PGI from the SAR on which you based payment, that is, the same SAR as identified by the Transaction Number above. This is RDE/EDE Reject Comment 04. Almost all of the rejects for this reason result from not reporting both the Transaction Number and the PGI from the same SAR. Do not automatically report 01; use the Transaction Number on the SAR on which you based payment.

Floppy Disk Data Exchange users should take advantage of the check digit calculation included in that software; this will greatly minimize these four rejects for your submissions. For ESAR's printed with ED's print software, you use the data from the following locations:

Original Social Security Number	Upper right corner
Original Name Code	Upper right corner
Transaction Number	Upper right corner
PGI*	Left Middle

*If the PGI Award Indicator flag on the ESAR designates Secondary (S), use the Secondary PGI for this Transaction Number; otherwise, always use the Primary (P) PGI. Note: If you use ESAR print software from a third party vendor, check your user instructions or contact your vendor for the print location of these four fields.

B. Verification Status Code "W" Records

Students with a verification status Code of "W" (Without documentation) appear in the processed results ED returns to you, and on your SPS, for only four reasons:

(1) You reported the "W" because you elected to make one payment to the student before completion of the verification process; or

(2) The student was selected for verification by the Federal Student Aid Application Processing System, that is, an asterisk appears to the right of the PGI, AND

- You reported Not Selected (N); or
- You reported Reprocessed (R) on the student's original application record (Transaction 01); or
- You left the verification status Code blank or reported a code not listed on the Payment Voucher.

For each of these student records, ED limits the accepted payment to no more than one-half of the Scheduled Pell Grant Award through the last required reporting period; then the student's payment is reduced to $0.

To report these students correctly, you must—

(1) report the status code under which you completed verification; and

(2) report the student's total payments in Item 6 (and in Item 7, if applicable). Please pay particular attention to completing your reporting promptly for these students. Do not continue to report them without properly changing their data; they will continue to carry the "W," and ED will reject them in entirety and reduce your authorization if reported after the verification deadline.

Where to Find/Report Key Fields Involved in Rejects

Item	Payment Voucher	RDE	EDE	Floppy
1. Attended Campus	Side 2 — Item 1	Detail record — positions 19-24	Detail record — positions 19-24	"Add Original Student Payment Record" screen
1a. Verification Status code	Side 2 — Item 4	Detail record — position 32	Detail record — position 32	"Add Original Student Payment Record" screen
2. Secondary PGI	Side 2 — Item 10	Detail record — position 81	Detail record — position 81	"Add Original Student Payment Record" screen
2a. Original Social Security Number	Side 2 — Directly above the "Make no marks in this box" block	Detail record — positions 2-10	Detail record — positions 2-10	"Original Student Payment Data" screen after the "Add" prompt
2b. Original Name	Side 2 — Directly above the "Make no marks in this box" block	Detail record — positions 11-12	Detail record — positions 11-12	"Original Student Payment Data" screen after the "Add" prompt
2c. Transaction Number	Side 2 — Directly above the "Make no marks in this box" block	Detail record — positions 13-14	Detail record — positions 13-14	"Original Student Payment Data" screen after the "Add" prompt
2d. Pell Grant Index	Side 2 — Directly above the "Make no marks in this box block	Detail record — positions 15-18	Detail record — positions 15-18	"Original Student Payment Data" screen after the "Add" prompt

REQUESTING FUNDS

The reporting system described in this section enables the Department to track your need for Pell Grant funds during the award year and to adjust your Pell Grant authorization accordingly. The system ensures that Federal funds do not remain at an institution when its students do not need them. When you request funds from the Department (for the Pell Grant or the campus-based programs), that request is handled by a different system, the ED Payment Management System (EDPMS).

Automated Clearing House (ACH)

The Department's Division of Financial Management Services uses a payment system called the Automated Clearing House/Electronic Funds Transfer (ACH/EFT). The ACH/EFT is essentially a direct deposit system. Most postsecondary schools that participate in the SFA programs are now using the ACH/EFT. Because the request for funds is usually handled by each school's fiscal officer, we will not review the fund drawdown procedures in this chapter. If you are responsible for your school's fiscal office activities, you should refer to *The ED Payment Management System User's Manual,* prepared by the Financial Management Service, and to the current edition of the SFA *Blue Book.*

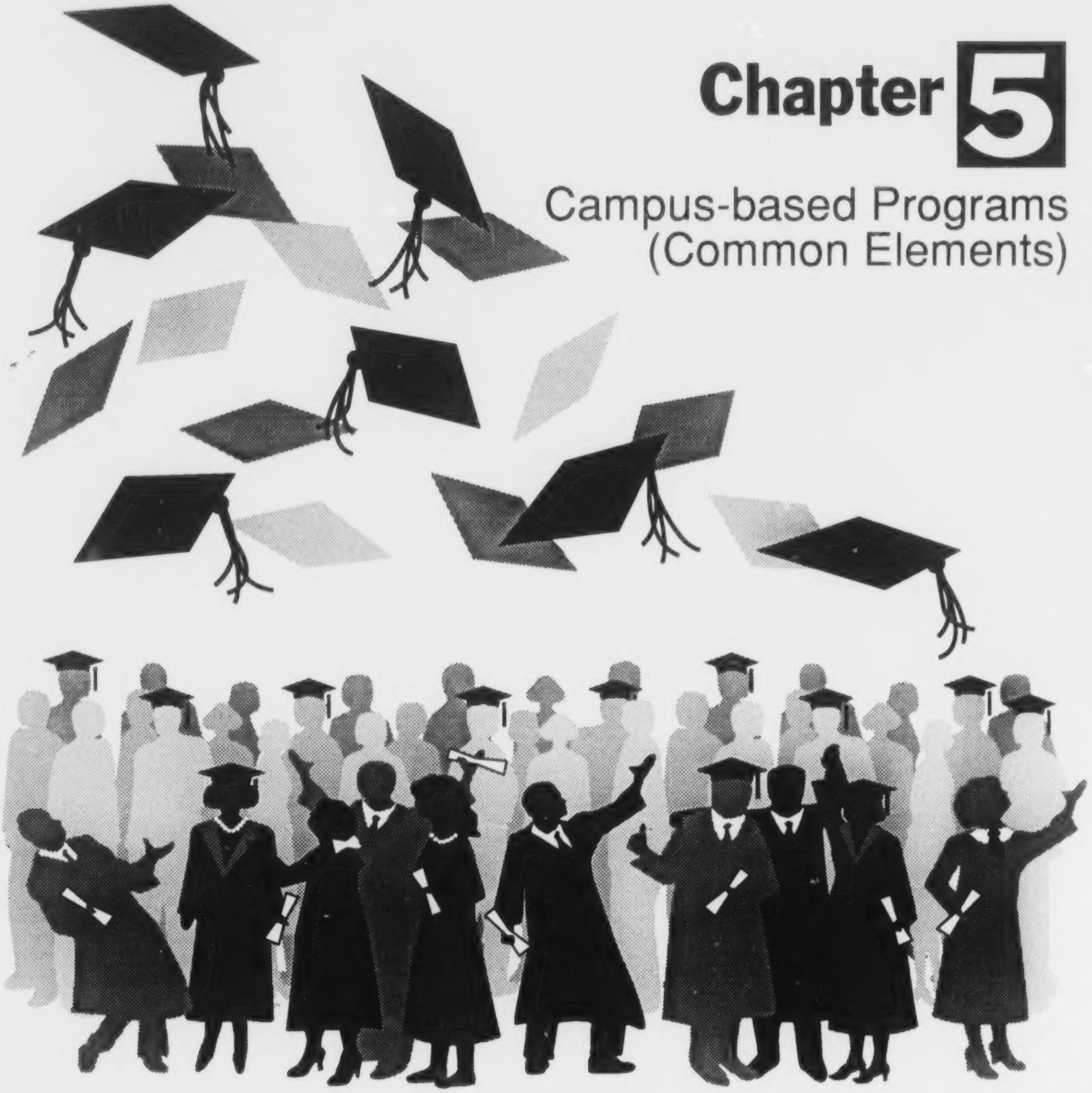
United States
Department of
Education

Office of
Student Financial
Assistance

The Federal Student Financial Aid Handbook, 1992-93

Chapter 5

Campus-based Programs (Common Elements)



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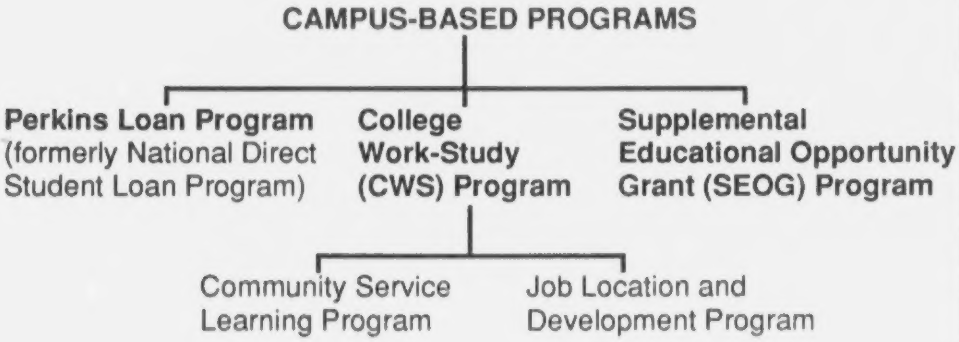
INTRODUCTION

The campus-based programs are so named because each school is responsible for administering them on its own campus. The financial aid administrator ensures that eligible students receive program funds in accordance with the provisions of the law, the regulations, the Program Participation Agreement signed by the Secretary of Education and the school's chief administrative officer, and other criteria the Department of Education may establish.


CAMPUS-BASED PROGRAMS
Perkins Loan Program (formerly National Direct Student Loan Program)
College Work-Study (CWS) Program
Supplemental Educational Opportunity Grant (SEOG) Program
Community Service Learning Program
Job Location and Development Program

This Chapter covers provisions common to the Perkins Loan, CWS, and SEOG programs. Chapters Six through Eight discuss these programs individually. The Perkins Loan Program provides low-interest, long-term loans to help needy undergraduate and graduate students; the CWS Program gives undergraduate and graduate students the chance to work part-time, and the SEOG Program provides grants to undergraduates who demonstrate exceptional financial need. A school may use part of its CWS funds for the Community Service Learning Program and the Job Location and Development Program, discussed in Chapter Seven.

PROGRAM PARTICIPATION AGREEMENT

School must sign agreement with ED

A school that wants to participate in any SFA program must sign a Program Participation Agreement with the Secretary. (For more information on this Agreement, see Chapter Three, Section One: Institutional Eligibility and Certification, under "Applying for Eligibility.") The Agreement must be signed by the school official legally authorized to assume, on the school's behalf, the Agreement's obligations.

For all of the programs, the Agreement provides that the school must use the funds it receives solely for the purposes specified in the regulations for each program and must administer each program in accordance with the Higher Education Act of 1965, as amended, and the Student Assistance General Provisions regulations. Requirements under the General Provisions regulations are discussed in Chapter Three of this *Handbook*. Each one of the campus-based programs has additional requirements under the Program Participation Agreement that are specific to the individual program; these requirements are found in Sections 674.8, 675.8, and 676.8 of the regulations for the campus-based programs and are discussed in the chapter for each program.

APPLICATION FOR FUNDS

School must apply annually

To receive funds from the U.S. Department of Education for one or more of the campus-based programs, a school must submit an application (*Fiscal Operations Report and Application to Participate—FISAP*) for each award year. The information reported must be accurate and verifiable. In July each year, ED distributes the FISAP packages and instructions for schools to use in applying for funds for the subsequent award year.

Allocations may not be appealed

The Department of Education allocates funds directly to schools according to the statutory formulas, which do not provide for appeals. The allocation (or authorization) for each program is the amount of funding the school is authorized to receive from the Department of Education for an award year. This amount is based on the allocation formulas in the law, as well as on the funds appropriated by Congress for the program and on the school's expenditures reported on the *FISAP* for a specified base year. The Department notifies schools of their allocation for each campus-based program in late March each year by sending The Official Notice of Funding. Later in the year, schools release any unexpended funds (refer to "Dear Colleague" letter CB-91-12, June 1991, about the release of unexpended 1990-91 allocations). The Department then reallocates the unexpended funds to schools that have met the

Schools return unexpended funds to ED

criteria for receiving a supplemental allocation. Criteria for the distribution of these funds have been established in accordance with the regulations published December 1, 1987, Sections 674.4(b), 675.4(a), and 676.4(a). ("Dear Colleague" letter CB-91-18, September 1991, discusses the reallocation of unexpended 1990-91 funds as 1991-92 supplemental allocations.)

Electronic FISAP a requirement for 1992-93

A Notice published in the **Federal Register** on January 22, 1991 notified schools that, when applying for campus-based funds for the 1992-93 award year and/or reporting 1990-91 campus-based expenditures, the schools must submit all data on the *1990-91 Fiscal Operations Report/ 1992-93 Application to Participate* to ED by using one of the available electronic procedures (i.e. by mailing diskettes, transmitting data by modem, or mailing a magnetic tape). The Department distributed electronic FISAP packages to schools with "Dear Colleague" letter CB-91-10 in July 1991. The deadline for returning the completed FISAP to ED by means of one of the electronic procedures listed above was October 1, 1991. A Notice of the October 1, 1991 closing date was published in the **Federal Register** August 19, 1991.

CERTIFICATIONS A SCHOOL MUST SUBMIT TO ED

Included in the FISAP package distributed to schools in July 1991 was ED Form 80-0013, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters; and Drug-Free Workplace requirements" and Standard Form - LLL, "Disclosure of Lobbying Activities." To participate in the campus-based programs for the 1992-93 award year, a school's Chief Executive Officer, or another person who had the authority to sign on behalf of the entire school, was required to complete, sign, date, and submit to ED the above certification forms with the school's completed FISAP by October 1, 1991.

A detailed discussion of the certification requirements is in Chapter Three, Section Two of this *Handbook*.

SECTION ONE:
SELECTING AID RECIPIENTS

No aid for second undergraduate degree

All students receiving campus-based aid must meet the general eligibility requirements listed in Chapter Two, Section One. A student enrolled as an undergraduate, graduate, or professional student is eligible to receive assistance from the Perkins Loan and CWS programs. Only undergraduate students are eligible to receive SEOGs. Persons who have earned a bachelor's or first professional degree are not eligible to receive aid to pursue a *second undergraduate* degree from any of the campus-based programs (refer to "Dear Colleague" letter CB-91-9, May 1991, page 4). Additional eligibility requirements for each campus-based program are discussed in Chapters Six through Eight.

Written selection procedures

In choosing its aid recipients, a school must develop written selection procedures that are uniformly applied, and that are kept on file at the school. A school must make campus-based funds reasonably available—to the extent of available funds—to all eligible students who demonstrate financial need. (Two of the campus-based programs, the Perkins Loan and SEOG programs, require eligible students to have *exceptional* financial need.)

Awarding aid to students enrolled part-time

The Higher Education Act of 1965, as amended, and the regulations for the campus-based programs require that a school make a reasonable proportion of its Federal allocation (SEOG and CWS) and loan funds (Perkins Loan) available to less than full-time students. This requirement applies to *all* schools that permit students to enroll on a part-time basis. Part-time students include correspondence students. To be considered enrolled in a program of correspondence study, the student must have completed and submitted the first lesson. The decision as to what amount constitutes "a reasonable proportion" is left to the school; the Department does not require a certain allotment (it is, of course, certainly permissible to set priorities in awarding aid, as long as part-time students are not excluded). A school that makes funds available to part-time students on the home campus must also make funds available to part-time students on its eligible branch campuses.

Exceptions to aid for less than full-time students

If a school's allocation is *not* based on the need of part-time students, the school *may* award part of its allocation to those students, but is not required to do so. If any one of the following circumstances applies to a school, the school is not required to award aid to less than full-time students—

- under the Perkins Loan Program if the school is not receiving any Federal capital contribution for 1992-93,
- under any campus-based program for which the school received a 1992-93 allocation of $5,000 or less, or
- under all campus-based programs if the school will enroll students on a less than full-time basis for the first time on or after July 1, 1992.

Special session

A student may receive campus-based aid during a special session, such as summer school, if he or she meets the same general eligibility requirements that apply to a student enrolled in a regular session (as noted earlier, these are listed in Chapter Two and in the General Provisions regulations). These general student eligibility requirements include the provision that the student must be "enrolled or accepted for enrollment" as a regular student in an eligible program. It is no longer a requirement that the student must have attended the school during the preceding term or have been accepted by the school for the subsequent term to receive aid during a special session, such as summer school.

Payment to student who drops out

A student who drops out *before* receiving his or her Perkins Loan or SEOG cannot receive any payment for the payment period. This is in contrast to the Pell Grant Program, which allows the school to pay the student for expenses up to the day the student drops out or becomes ineligible for payment. If a student drops out *after* receiving his or her Perkins Loan or SEOG, but before the end of the payment period, the school determines the amount of any refund and repayment as discussed in Chapter Three, Section Four, "Refunds and Repayments."

SECTION TWO: NEED ANALYSIS

Cost of attendance

-Family Contribution

=Financial need

To determine a student's eligibility for Federal student aid, the financial aid administrator must determine the student's financial need. If the student's cost of attendance (COA) exceeds his or her Family Contribution (FC), the student has need. Allowable costs of attendance for an enrollment period are discussed beginning on page 5-10. The FC is the combined contribution expected during the enrollment period from the student and his or her spouse, as well as from the student's parents if the student is dependent.

Formulas in the statutes

✓HEA 86

✓HETA

See *The Congressional Methodology, 1992-93*

The procedures for determining a student's FC and COA for the campus-based programs are in Part F of Title IV of the Higher Education Act of 1965, as amended by the Higher Education Amendments of 1986 (Public Law 99-498) and the Higher Education Technical Amendments Act of 1987 (Public Law 100-50). This need analysis system, called the "Congressional Methodology," is also used by the Department of Education to determine a student's FC and COA for the Stafford Loan and Income Contingent Loan programs. Updated tables for the FC formulas for the 1992-93 award year were published in the **Federal Register** on May 8, 1991. Procedures for calculating an FC, as well as adjusting an FC, are discussed in our publication, *The Congressional Methodology, 1992-93.* Procedures for calculating a student's COA are discussed in this chapter, beginning on page 5-10. A student receiving aid from both campus-based and Stafford Loan programs should have the same COA and FC figures for these programs.

FAMILY CONTRIBUTION

List of Need Analysis Systems

For the 1992-93 award year, the Department of Education, through the use of test cases, is again certifying Need Analysis Systems (NASs) that will produce FCs exactly as described in Part F of Title IV of the HEA. At the time this Chapter was printed, it was anticipated that the list of certified NASs would be distributed to schools in a "Dear Colleague" letter by May 1992. Schools are not required to use one of these systems, but doing so will ensure that FCs will be accurate and in accordance with the law.

Electronic Need Analysis System (ENAS)

For schools that participate electronically in the SFA programs, the Department will again offer its Electronic Need Analysis System (ENAS). ENAS is a certified need analysis system provided to schools on diskettes, along with a users' guide. ENAS may be used by the financial aid office to calculate an FC, using the Congressional Methodology, for the campus-based programs, as well as the Stafford Loan and Income Contingent Loan programs. Telephone inquiries about ENAS should be directed to "ENAS Technical Support " at Macro International, Inc. on (301) 588-5484.

Professional judgment

Must document individual adjustment

Although strict conformity with Congressional Methodology is required in initially calculating a student's FC, the aid administrator retains the traditional authority to use professional judgment to adjust the FC if the student has personal circumstances not taken into account by the FC formula. Any time an aid administrator uses this authority, the student's file must be documented justifying the individual adjustment. The FC may be adjusted—up or down—if the FC does not accurately reflect the ability of the student, spouse (if the student is married), and parents (if the student is dependent) to contribute toward the student's education. Adjustments can be made because the student's family has experienced a loss of income, a loss of property, or for any other reason the aid administrator believes is appropriate. A financial aid administrator may make the following specific adjustments to the FC—

Types of FC adjustments

- to data elements in the formula,
- to methodology, or
- directly to the FC itself.

An FC that is adjusted by a financial aid administrator does not have to be reprocessed by the processing agency; however, the financial aid administrator must resolve any inconsistent or conflicting information in the student's application before adjusting the FC. If an FC is adjusted for the campus-based programs, it must also be adjusted for the Stafford Loan Program—if the student has a Stafford Loan.

Dependency adjustment

The aid administrator also has the authority to change a student's status from dependent to independent (thus eliminating any parental contribution) if the student has an unusual circumstance that can be documented. For more information on this procedure, known as a dependency status override, refer to Part II of the 1992-93 *Counselor's Handbook for Postsecondary Schools*.

Native American students

In determining a Native American's FC, the following may not be considered as income or assets of the student or the student's family: any awards received under the Alaska Native Claims Settlement Act (43 U.S.C. 1601 et seq.) or the Maine Indians Claims Settlement Act (25 U.S.C. 1721 et seq.). Amounts of $2,000 or less received from the

Per Capita Act (Pub. L. 98-64) or the Distribution of Judgment Funds Act (25 U.S.C.1401 et seq.) also may not be considered.

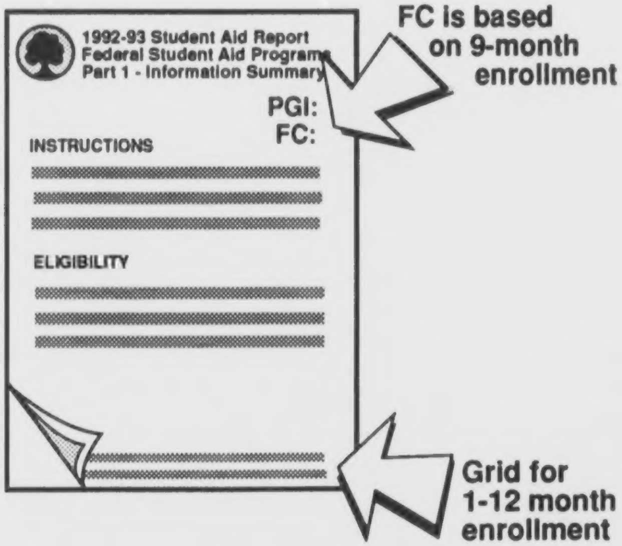
Must document use of Special Condition FC

If a student qualifies to apply for a 1992-93 Pell Grant based on a Special Condition, the Central Processing System (CPS) calculates his or her Pell Grant Index (PGI) using his or her expected 1992 income and will also use expected 1992 income to calculate the student's FC. This "Special Condition" FC will show the letter "E" beside the FC at the top of the SAR, and the alternate FC values printed on the bottom of the SAR will also be based on expected year income. However, the aid administrator must decide whether to use this FC, using his or her professional judgment, and must place documentation in the student's file to document that decision. A discussion of Special Conditions is found in Chapter Two, Section Two, and a chart of Special Conditions is at the end of Chapter Two, Section Two.

FCs FOR ENROLLMENTS OF MORE OR LESS THAN 9 MONTHS

FCs for 1-12 months enrollment are printed on the SAR

The basic FC, calculated by the CPS and printed at the top of the Student Aid Report (SAR), is for a 9-month enrollment period (the Department considers it reasonable to interpret a "9-month period of enrollment" as a period of $8\frac{1}{2}$ to $9\frac{1}{2}$ months). The formulas used to calculate FCs for a period of enrollment of 9 months, as well as enrollments of more or less than 9 months are included in the ED publication, *The Congressional Methodology, 1992-93.* To help schools adjust the FC for students who are enrolled for other than 9 months, the 1992-93 SAR has a grid on the front with 12 FCs, for enrollments of 1-12 months in length. (If the student has both a simplified and a regular calculation, 24 FCs are printed.) The grid is printed on the front of Part 1 of the SAR at the bottom of the page; the standard 9-month FC is at the top of that page.


1992-93 Student Aid Report
Federal Student Aid Programs
Part 1 - Information Summary
PGI:
FC:
INSTRUCTIONS
ELIGIBILITY
FC is based on 9-month enrollment
Grid for 1-12 month enrollment

The law specifies how to calculate FCs for *dependent students* and for *independent students with no dependents* who are enrolled for more or less than 9 months (worksheets for these calculations are included in the ED publication *Congressional Methodology, 1992-93*). However, the law does not specify how to calculate an FC for an *independent student with dependents* who is enrolled for more or less than 9 months. As the need analysis for an independent student with dependents is similar to that for a dependent student's family, calculating an FC for a period of other than 9 months for such a student (based on the dependent student model) would ensure comparable treatment for that student. If the school adopts these calculations as standards for all independent students with dependents who are enrolled for more or less than 9 months, then the use of "professional judgment" is not required.

9-month dependent student contribution

Note that for a dependent student enrolled more or less than 9 months, the law provides an adjustment in the FC formula for the *parents'* contribution, but not for the *dependent student's* own contribution. Generally, therefore, a school is required to use the standard 9-month student contribution unless an individual adjustment is made based on professional judgment.

In all cases involving a question on the appropriate FC to be used, the school must first determine the period of enrollment for its program(s) and perform a standard calculation for that period in accordance with the Congressional Methodology. After the standard FC is calculated, the financial aid administrator may consider different circumstances affecting individual students or categories of students.

COST OF ATTENDANCE

The cost of attendance for a student is generally determined by adding the following components:

- tuition and fees;
- allowance for books, supplies, transportation, and miscellaneous personal expenses;
- allowance for room and board; and
- allowance for dependent care.

Some of the above components are not included in the cost of attendance for less than half-time students, correspondence study, or study by telecommunications technology (see page 5-15). In some cases, the cost of attendance may include additional costs: if the student is disabled, the cost of attendance includes an allowance for extra costs related to the disability (see page 5-14); if the student is enrolled in a formal course of study outside the United States, the cost of attendance may include the cost of travel to and from the foreign place of study (see page 5-15).

Tuition and fees

Tuition and fees are those normally assessed a student carrying the same academic workload as others in a particular course of study and include the cost of renting or buying any equipment, materials, or supplies required of *all* students in that course of study. A school may establish separate average costs for special categories of students such as undergraduate or graduate, in-State or out-of-State, but is not required to do so. For a part-time student, a school may either reduce proportionally the full-time tuition and fee component or may use the actual amount it charges that student for an academic year. If a school uses *average* tuition and fee charges, but has individual students whose tuition and fees vary greatly from the average, the school may exercise professional judgment to use *actual* charges for those students.

Books and supplies

Reasonable allowances should be provided for books and supplies, transportation, and miscellaneous personal expenses. The school may have different books and supplies allowances to reflect the requirements of particular majors such as art, medicine, nursing, law, or engineering.

Transportation

Transportation may include the cost of travel between the student's residence and the school, and travel costs required for completing a course of study. When public transportation is not available for travel to and from school, the cost of operating and maintaining a car (gas, oil, license, insurance, repair, for example) may be included. In such cases, the transportation allowance may be based on the prevailing mileage costs used in the region where the school is located. For students who live away from home, the travel allowance usually includes the cost of two or three round trips between the student's residence and the school by way of a common carrier, economy class. Personal expenses include items such as clothing and laundry, grooming aids, insurance, and recreation; the allowance should permit the student to maintain a reasonable standard of living.

Miscellaneous personal expenses

Personal computer

The purchase price of a personal computer may be included as an educationally related expense in the student's cost of attendance only if the purchase of a personal computer is required by that student's academic program, and is required of all students in that program. If a personal computer is not required of every student enrolled in a particular course of study, the cost of the computer may not be included in the cost of attendance. Even when the purchase of a computer is required, including these costs in the cost of attendance remains a policy decision of the school.

Room and board allowance for student only

The room and board allowance may include only the living costs of the student during a period of enrollment. (A student's costs during periods of *non-enrollment* are taken into account in the student's family contribution formula through a maintenance allowance for the student and the student's family.) The room and board allowance does not include living costs for a spouse or other dependent. In the case of a student with dependents who lives in housing owned or operated by the school, appropriate methods of calculating the room and board allowance to reflect only the costs of the student are (1) proration of the standard charge based on the number of dependents and (2) use of the standard charge for single students (the allowance may not be less than $2,500—see the chart below). Living expenses for dependents may, in some cases, be included in the *"dependent care"* allowance if the family's available income is less than the Standard Maintenance Allowance (see the discussion of the dependent care allowance on the next page). A student enrolled less than half-time *receives no room and board allowance.*

Room and board allowances for other than 9 months

The FC calculation is based on an enrollment period of 9 months; therefore, a school may reasonably assume that the minimum room and board allowances given in the law are also based on an enrollment period of 9 months and may prorate the allowances accordingly for those students who are enrolled more or less than 9 months. The statutory room and board allowances for students enrolled for 9 months are shown in the table below:

ROOM AND BOARD ALLOWANCES
for 9-month enrollment period

STUDENT	ALLOWANCE
Student (no dependents) lives at home with parents	At least $1,500
Student (no dependents) lives in housing owned or operated by the school	School determines a standard living allowance based on the amount charged for most of its students.
All other students	Allowance is based on room and board costs "reasonably incurred" but must be at least $2,500.

For students residing in housing owned or operated by the school, a school may establish different categories of room and board allowances to reflect different dormitory costs or meal plans. If such categories are established, the school must uniformly apply the appropriate room and board allowances to all students within each category.

One way to establish a standard room and board allowance for other than 9 months would be to adjust the actual or average 9-month allowance proportionally, in such a way that the prorated amounts meet the statutory 9-month minimum amounts as adjusted. An example of a prorated minimum allowance is shown below:

$$\textbf{Minimum Room and Board Allowance for 9 Months} \times \frac{\textbf{Months Enrolled}}{\textbf{9}} = \textbf{Minimum Room and Board Allowance for Months Enrolled}$$

If a school's actual or average 9-month room and board allowances are *greater* than the statutory minimum amounts, the school might establish standard costs of attendance by prorating its actual or average 9-month allowances or by using separate actual or average allowances for various program lengths.

Dependent care allowance

If a student has one or more dependents who are included in the student's household size, and the dependents must have care in order for the student to attend classes, the school determines an allowance for dependent care based on expenses "reasonably incurred" based on the number and age of the dependents. A "dependent" for the campus-based programs is defined more broadly than for the Pell Grant Program and could, for example, include disabled adults (including the student's spouse), as well as children. The allowance may be a projection of the student's expected dependent care costs rather than actual costs, and may be a separate amount for each dependent.

Dependent care includes food and shelter in some cases

School officials are authorized, through the language of the statute (with specific reference to "allowance" and "as determined by the institution"), to make a judgment about the costs to be included in the "dependent care" allowance. For example, it is permissible for a financial aid administrator to include the costs of food and shelter for dependents in the "dependent care" allowance in those circumstances where the family's available income is less than the Standard Maintenance Allowance (published annually in the **Federal Register** as part of the FC need-analysis formula). The authority to do so is based on statutory language and would not require exercising professional judgment for individual circumstances. A table showing the 1992-93 Standard Maintenance Allowances is shown on the next page.

1992-93 Standard Maintenance Allowances

NUMBER OF FAMILY MEMBERS (including student)	NUMBER IN COLLEGE				
	1	2	3	4	5
2	$10,370	$8,600	———	———	———
3	12,910	11,150	$9,380	———	———
4	15,940	14,180	12,410	$10,640	———
5	18,810	17,050	15,280	13,510	$10,500
6	22,010	20,240	18,470	16,700	14,930

NOTE: For each additional family member, add $2,490.
For each additional college student, subtract $1,770

Both the Stafford Loan origination fee and the insurance premium may be included in a student's cost of attendance if a Stafford Loan is part of the student's financial aid package. In such cases, the *full amount* of the loan must be considered as financial aid when determining future amounts of assistance for the same award year—the aid administrator would not subtract the origination fee when building in a Stafford Loan as part of the student's aid package. For example, if the student borrows a $1,000 Stafford Loan that includes a $15 origination fee, the amount of the loan built into the student's aid package would be $1,000.

COST OF ATTENDANCE FOR SPECIAL CATEGORIES OF STUDENTS

Expenses related to disability

An allowance for expenses related to a disability is determined by the school based on expenses related to the student's disability that are not provided by any other assisting agency or program. The allowance may include reasonably incurred costs of special services, transportation, equipment, and supplies. There is no predetermined maximum amount for special services or equipment, but the school must be able to justify and document the costs, which must not include any services or equipment provided by other agencies. A disabled student is defined as one who is mentally retarded, hard of hearing, deaf, speech- or language-impaired, visually disabled, autistic, or a student with traumatic brain injury. Or, the student may be seriously emotionally disturbed, orthopedically impaired, or otherwise health-impaired. A student with specific learning disabilities who requires special education and related services would also be considered disabled

Coordinating with Voc-Rehab assistance

To prevent overawards to disabled students who are eligible for assistance from both a State Vocational Rehabilitation Agency and SFA programs, procedures have been developed in agreements between State Vocational Rehabilitation Agencies and State Associations of Student Financial Aid Administrators to coordinate financial assistance for these students. For information about the agreement in a specific State, a financial aid administrator should contact his or her State Association of Student Financial Aid Adminstrators or ED Regional Office. Additional information is in the "Dear Colleague" letter GEN-92-1, January 1992.

Study abroad

The school must establish reasonable costs for students enrolled in a formal program of study outside the United States that is normally included in the student's academic program. The allowance includes travel costs to and from the foreign place of study. A school is permitted to determine costs and award aid only for foreign study that is part of the student's academic program.

Less than half-time students

The cost of attendance for less than half-time students includes only the following components: (1) tuition and fees, (2) an allowance determined by the school for books, supplies, and transportation (the allowance does not include miscellaneous personal expenses), and (3) a dependent care allowance. However, a financial aid administrator may use his or her professional judgment to include an allowance for disability to reflect an individual student's special circumstances. No room and board allowance may be included in the cost of attendance for less than half-time students.

Correspondence study

Allowable costs for students enrolled in a program of study by correspondence are tuition and fees, books and supplies and, if a period of residential training is required, an allowance for room and board and travel. The cost of tuition, fees, books, and supplies is the contract price of the program. Costs are calculated on an individual basis and must reflect actual costs.

Telecommunications study

The cost of attendance for a student receiving all or part of his or her instruction through telecommunications technology will be calculated in the same manner as for other students, but it is not permissible to include the cost of rental or purchase of equipment.

Incarcerated students

A school may establish a standard cost of attendance for incarcerated students. However, the standard room and board allowance in the student's cost of attendance may not be less than $2,500. A school may wish to review these cases on an individual basis to determine if a reduction in the standard allowance using professional judgment would be appropriate to reflect the actual room and board costs of each student.

The financial aid administrator has the authority to use professional judgment to adjust the cost of attendance for the campus-based and guaranteed loan programs, on a case-by-case basis, to allow for special circumstances. Such adjustments must be documented in the student's file. A *standard* accommodation of living expenses for a *category* of students during periods of non-enrollment is not permissible.

It is not permissible for a financial aid administrator to use his or her professional judgment to include the cost of a professional licensing examination (such as a bar examination or medical licensing examination) in a student's cost of attendance, because these costs are clearly costs related only to post-enrollment activity rather than costs related to completing the student's course of study at the school.

BUDGETS FOR ENROLLMENTS OF MORE OR LESS THAN 9 MONTHS

Developing standard COAs for various program lengths

When packaging financial aid for a student enrolled more or less than 9 months, the student's FC and cost of attendance for that enrollment period must be determined. As stated earlier, the basic formulas provided in the law for calculating a student's FC and cost of attendance are considered to be for a 9-month enrollment period. In developing budgets for enrollment periods of other than 9 months, a financial aid administrator has the authority to develop standard policies and procedures applicable to any phase of the need analysis process. These policies and procedures include the option of using 1-12 month FC calculations as standard FCs and the development of standard cost of attendance allowances for enrollment periods of various lengths.

Prorating room and board allowances

The only allowances in the cost of attendance for which the law provides specific (minimum) amounts are the room and board allowances for two types of students: (1) at least $1,500 for a student (with no dependents) who lives at home with parents and (2) at least $2,500 for any other student except one who lives in housing owned or operated by the school. As these allowances are considered to be based on an enrollment period of 9 months, a school may establish standard room and board allowances for other than 9 months by adjusting the school's actual or average 9-month allowances proportionally, making sure that the prorated amounts meet the statutory 9-month minimum amounts as prorated; the school also may establish standard allowances by using separate actual or average allowances for various program lengths. An example of a prorated minimum room and board allowance is shown at the top of the next page:

EXAMPLE:

The statutory *minimum* room and board allowance for 9 months for a *student (with no dependents) who lives at home with parents* is $1,500; to calculate the minimum allowance for a student enrolled more or less than 9 months, the formula below may be used:

$$\text{Minimum Room and Board Allowance for 9 Months} \times \frac{\text{Months Enrolled}}{9} = \text{Minimum Room and Board Allowance for Months Enrolled}$$

Using the formula for the same student who is enrolled in a 12-month program, the 9-month minimum room and board allowance adjusted proportionally would be at least $2,000 for 12 months—

$$\$1{,}500 \times \frac{12}{9} = \$2{,}000$$

Prorating allowances other than room and board

Although the law does not provide specific amounts for allowances other than room and board within the cost of attendance (for example, books and supplies, transportation, or personal expenses), the school may establish standard costs for these other allowances for programs of various lengths in a similar manner—by prorating the school's actual or average 9-month allowances or by using separate actual or average allowances for various program lengths.

The example below shows how a school could construct budgets for two 12-month programs that begin on different dates.

Ace Business College has a 12-month program beginning on July 1 each year, and another 12-month program beginning January 1 each year. The school has established a standard 12-month cost of attendance for both programs. For a student who begins the program on July 1, 1992, the school will use the student's 1992-93 12-month FC for the entire 1992-93 award year (July 1, 1992 to June 30, 1993). However, for a student who begins the program on January 1, 1992, the school has the option of using the student's 12-month FC for either 1991-92 or 1992-93 (the FC for the award year that begins in July 1992).*

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* Previous versions of the Handbook cited a third option; however, that option is not applicable.

SECTION THREE: RESOURCES AND OVERAWARDS

A financial aid administrator may not award or disburse campus-based aid if that aid, when combined with all other resources, would exceed the student's need. The aid administrator must take into account those resources that he or she can reasonably anticipate at the time aid is awarded to the student, those the school makes available to its students, or those the aid administrator knows about.

Maximum campus-based aid =

Financial need

- Other resources

If the student receives additional resources *at any time during the award period* that were not considered in calculating the student's eligibility for aid, and these resources combined with the expected financial aid will exceed the student's need, the amount in excess of the student's need is considered an overaward.

LIST OF RESOURCES

Resources, as defined in the campus-based regulations, include, but are not limited to —

- the amount of a Pell Grant the student is entitled to receive, whether or not the student applies for the grant,
- Stafford Loans,
- waivers of tuition and fees,
- grants, including SEOGs and ROTC living allowances,
- fellowships or assistantships,
- income from insurance programs that pay for the student's education,
- Veterans benefits, except any amount included in the student's FC,
- long-term loans made by the school, including Perkins and Direct Loans and need-based Income Contingent Loans (ICLs),*
- the amount of SLS, PLUS, non-need-based ICLs, and State-sponsored or private loans** that is in excess of the expected family contribution when these loans are substituted for the student's FC, and
- net income from need-based employment.

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* Income Contingent Loans are currently operating as a pilot program in 10 schools.

** Short-term emergency loans are not considered to be a resource.

Need-based employment is employment that is awarded by the school itself or by another entity to a student who demonstrates a financial need for those funds for the purpose of defraying educational costs of attendance for the award year.

Non-need-based earnings eliminated as a resource

Non-need-based earnings are no longer to be considered as a resource for the current award year because they will be reported on the application for Federal student aid for the subsequent award year and will be used to calculate the FC for that award year. Only income from *need-based* employment may now be considered as a resource. (See the revisions to Sections 674.14, 675.14, and 676.14 of the campus-based programs' regulations, published in the **Federal Register** December 28, 1988.)

Portions of veterans educational benefits not in FC are resources

The veterans educational benefits not already included in the FC calculation must be treated as a resource in the campus-based programs and as estimated financial assistance in the guaranteed student loan programs; the unassessed amount to be treated as a resource/estimated financial assistance for independent students with dependents is now printed on the SAR in the Office Use Area at the bottom of the SAR, line 3. A chart showing the veterans educational benefits to be treated as a resource/estimated financial assistance for each type of student is shown below:

VETERANS EDUCATIONAL BENEFITS AS A RESOURCE
(Also as Estimated Financial Assistance under the Stafford Loan Program)

	Dependents Educational Assistance Program **DEAP**	Veterans Contributory Benefits **VEAP**	**NEW GI BILL**
Dependent student:	**Amount to count as resource:**	**Amount to count as resource:**	**Amount to count as resource:**
Regular FC formula	100 percent	Not applicable	Not applicable
Simplified FC formula	100 percent	Not applicable	Not applicable
Independent student without dependents:	**Amount to count as resource:**	**Amount to count as resource:**	**Amount to count as resource:**
Regular FC formula	None	None	100 percent
Simplified FC formula	100 percent	100 percent	100 percent
Independent student with dependents:	**Amount to count as resource:**	**Amount to count as resource:**	**Amount to count as resource:**
Regular FC formula	See below*	See below*	100 percent
Simplified FC formula	100 percent	100 percent	100 percent

* The amount to be treated as a resource for an independent student with dependents is printed on the SAR in the Office Use Area, line 3.

Types of VA benefits not considered a resource

Veterans educational benefits of a student's *spouse* are not included in the student's FC formula, nor are they considered as a resource or estimated financial assistance for the student. Noneducational veterans benefits are counted in the FC formulas as nontaxable income and therefore are not counted as a resource or estimated financial assistance (noneducational veterans benefits include benefits such as Death Pension and Dependency and Indemnity Compensation benefits).

STEPS TO TAKE IF RESOURCES EXCEED NEED

Steps to take if resources exceed need by more than $200

If a school learns that a student has received additional resources that were not included in calculating the student's eligibility for aid, the school must take the following steps:

Return to lender any undisbursed Stafford or SLS

(1) If the student's financial aid includes a Stafford or SLS loan, the school must first return to the lender any Stafford or SLS disbursement (or portion of a disbursement) not yet delivered to the student that exceeds the amount of assistance the student is eligible to receive. Note that, unlike the campus-based programs, the Stafford and SLS loan programs do not allow a $200 tolerance before a school is required to take action to eliminate an overaward. A school may attempt to reduce or eliminate the overaward by using a student's SLS, PLUS, or *non-subsidized* Stafford Loan to cover the student's FC. (Stafford and SLS overawards are discussed in Chapter Ten, Section Six, under "Estimated Financial Assistance.")

Determine whether student has increased need

(2) If, after eliminating any Stafford or SLS overaward, the student's total resources exceed the student's need by *more than $200*, the school must recalculate the student's need to determine whether he or she has increased need that was not anticipated when the school awarded aid to the student; if the student's need has increased, and the total resources do not exceed the increased need by more than $200, the school is not required to take any further action.

Cancel any loan or grant if need has not increased or if resources exceed need by more than $200

(3) If the school recalculates the student's need and determines that the student's need has *not* increased, or that his or her need has increased but the total resources still exceed his or her need by more than $200, the school must cancel any loan or grant (other than a Pell Grant) that has not already been disbursed.

(4) If the school takes the steps above and the student's total resources still exceed his or her need by more than $200, the amount that exceeds the student's need by more than $200 is considered an overpayment.

Treatment of CWS earnings in excess of need

If a school learns that a student earning CWS wages has received additional resources that were not included in calculating the student's CWS eligibility, and the total resources now exceed the student's need, the actions the school must take vary somewhat from the actions described above. Those actions are discussed in Chapter Seven, Section Three: Resources and Overawards, under "Steps to Take if Resources Exceed Need."

School may be liable for overpayment

A student is liable for any overpayment of a loan or grant; the school is also liable for any overpayment that was caused by the failure of the school to follow the procedures outlined above in awarding and disbursing aid. If the school makes a campus-based overpayment for which it is liable, it must restore to its campus-based fund an amount equal to the overpayment plus any administrative cost allowance claimed on that amount.

Recovering an overpayment of Perkins advances

If the school makes an overpayment of Perkins Loan advances for which it is not liable (for example when a student has made a mistake on the application), the school must make a "reasonable effort" to recover the amount. This consists of a written demand to the student to repay the amount of the overpayment, including a notice that failure to repay will mean the student will be ineligible for any additional SFA funds.*

Collecting an SEOG overpayment

If the school makes an SEOG overpayment for which it is not liable, the school must promptly try to recover the overpayment by sending a written notice to the student requesting payment in full. If the student does not repay the funds as requested, the school must make a second attempt to recover the overpayment, within 30 days of sending the first notice. If a student objects that the school has made a mistake in determining the overaward, the school must consider any information provided by the student and determine whether the objection is warranted before it refers the overpayment to ED. If the school fails to collect the overpayment after taking these steps, and if the Federal share of the overpayment is $25 or more, the school must notify ED of the overpayment within 90 days of the overpayment, identifying the Federal share of the overpayment, the student's name, and student's most recent address. A student who fails to repay overawarded SEOG funds is ineligible for further SFA funds.

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* These procedures may be changed in the near future. Refer to the Proposed Rule published in the **Federal Register** November 13, 1990.

COORDINATION WITH BUREAU OF INDIAN AFFAIRS GRANTS

To determine the amount of campus-based aid for a student who is or may be eligible for a Bureau of Indian Affairs (BIA) grant, a school must first develop a financial aid package without considering any BIA funds. If the total aid package—after BIA funds are added—does not exceed the student's need, no adjustment may be made to the aid package. If the total package plus the BIA grant does exceed need, the school must eliminate the excess in the following sequence: loans, work-study awards, and grants other than Pell Grants. (The school may *not* reduce a Pell Grant or BIA grant.) The school may alter this sequence of reductions if the student requests it, and if the school believes the change would benefit the student. In determining the amount of financial need for a student eligible for a BIA grant, a financial aid administrator is encouraged to consult with area officials in charge of BIA postsecondary financial aid.

SECTION FOUR:
FISCAL PROCEDURES AND RECORDS REQUIREMENTS

For information on general fiscal procedures and records requirements for all SFA programs, see Chapter Three, Section Two: Administrative and Fiscal Standards, and the current edition of the "Blue Book." Additional fiscal procedures required for each campus-based program are discussed in the chapter covering that program.

FISCAL OPERATIONS REPORT

To receive funds from the U.S. Department of Education campus-based programs, a school must submit an application (*Fiscal Operations Report and Application to Participate—FISAP*) for each award year. The information reported must be accurate and verifiable. ED distributes the FISAP packages and instructions in July each year for schools to use in applying for funds for the subsequent award year. Schools that sent their FISAPs for the 1992-93 award year by the October 1991 deadline received their tentative 1992-93 funding notifications by February 1, 1992. As noted on page 5-3, all schools are now required to use one of the available electronic procedures to submit their FISAP data to ED. Data may be submitted by mailing diskettes, transmitted via modem, or submitted by mailing a magnetic tape. The Department will distribute electronic FISAP packages to schools in July 1992 to be completed by schools applying for funds for the 1993-94 award year and returned to ED by means of one of the electronic procedures listed above by October 1, 1992.

Questions concerning the preparation of the FISAP should be referred to ED's Office of Student Financial Assistance, Division of Program Operations and Systems, to the appropriate campus-based State representative; the representatives and their telephone numbers are listed in Chapter One, Section One, of this *Handbook*. Questions about the data entry or submission of a FISAP should be referred to an Electronic FISAP Administrator on (301) 565-0032 or (202) 708-6726.

CAMPUS-BASED PROGRAM RECORDS

A school must keep financial records that reflect all campus-based program transactions and must keep all records supporting the school's application for campus-based funds. This includes the applications and records of all students who applied for campus-based assistance for a specific award year and were included on the school's FISAP for that award year. This also includes students who applied for but did not receive aid, either because the school had no more funds to award or the school determined that the student did not need funds. The school must keep general ledger control accounts and related accounts that identify each program transaction and separate those transactions from other institutional financial activity.

Period for record retention

Generally, a school must keep records pertaining to a specific award year for five years after submitting the FISAP for that award year. There are two exceptions: one for loan records and one for records of expenditures questioned in audits or program reviews. Repayment records for Perkins and Direct/Defense Loans (including cancellation and deferment requests) must be kept for at least five years from the date on which the loan is assigned to the Department, canceled, or repaid. Records questioned in an audit must be kept until the questions are resolved.

Storage of records

A school must keep the original promissory note and repayment schedule for a Perkins or Direct/Defense Loan in a locked fireproof container until the loan is repaid or until the originals are needed in order to enforce collection of the loan (see Chapter Six, Section Two: Disposition of Promissory Note and Repayment Schedule). A school may substitute microform copies for original records (other than promissory notes and repayment schedules), or it may keep its records in computer format. If a school chooses the computer format, it must keep the source documents supporting the computer input either in hard copy or in microforms. If a loan is assigned to the Department, the school must send the original promissory note or a certified copy of the note, as well as a copy of the original deferment or cancellation form(s), not computer-generated form(s) or microform(s).

All campus-based program records

Records for all campus-based programs must—

- be reconciled at least monthly (this applies to fiscal information only);
- identify each student's account and its status—amounts awarded, disbursed, etc.;
- show the eligibility of each student who received campus-based funds; and
- show the amount of each student's need and how it was met.

Perkins Loan Program records

The school's records for the Perkins Loan Program must also include a repayment history for each borrower, containing—

- the date and amount of each repayment during the life of the loan;
- the amount of each repayment credited to principal, interest, collection costs, and either penalty or late charges;
- the date, nature, and result of each contact with the borrower (or endorser) in the collection of an overdue loan; and
- copies of all correspondence to or from the borrower and endorser, except for bills, routine overdue notices, and routine form letters.

College Work-Study records

Under CWS, records must also include—

- a certification, signed by the student's supervisor (an official of the school or off-campus agency) that a student has worked and has earned the amount being paid;
- a payroll voucher with sufficient information to support all payroll disbursements (see "Payroll Records" in Chapter Seven, Section Four: Paying Students, for more information); and
- a non-cash contribution record, if a school paid its share of a student's earnings in the form of services and equipment (see "Institutional Share" in Chapter Seven, Section Six: Using CWS Program Funds, for information on non-cash contributions).

ADMINISTRATIVE COST ALLOWANCE

Allowance to offset administrative costs

Schools participating in the campus-based programs are entitled to an allowance to help offset administrative costs, such as salaries, furniture, travel, supplies, and equipment. The allowance can also be used for service fees that banks charge for maintaining accounts. Computer costs associated with Perkins Loan billing may also be paid from this allowance.

Allowance based on campus-based expenditures

Each school's administrative cost allowance is based on its expenditures for all three programs, *excluding* the amount of Perkins Loans/NDSLs assigned to the Department. When calculating the administrative cost allowance for SEOG for the 1992-93 award year, a school is to include the full amount of its SEOG awards—both the 85 percent Federal share and the 15 percent institutional share. A school may not include any SEOG institutional share in excess of 15 percent in its FISAP or in the calculation of its administrative cost allowance. If a school has been granted by the Department a waiver of its required institutional share under the

Strengthening Institutions Program, that school's administrative cost allowance may be calculated only on the full Federal portion of its SEOG awards. The school calculates the total administrative cost allowance for the campus-based programs, except the Community Service Learning Program (CSLP),* in Part VI of the FISAP by adding the following:

5 percent of the first $2,750,000 of a school's expenditures under the campus-based programs (excluding expenditures under CSLP)

+

4 percent of expenditures greater than $2,750,000 but less than $5,500,000 under the campus-based programs (except CSLP)

+

3 percent of expenditures greater than $5,500,000 under the campus-based programs (except CSLP)

The administrative cost allowance for the Community Service Learning Program is calculated separately in Part V of the FISAP; the CSLP allowance is 10 percent of wages paid to students under the CSLP.

Source of administrative cost alowance

The school takes the administrative cost allowance out of the annual authorizations the school receives for the SEOG and CWS programs and from the available cash-on-hand in the Perkins Loan Fund. It is not a separate allowance sent to the school. Schools may use the allowance to help pay the costs of administering not only the campus-based programs, but the Pell Grant Program as well. Administrative costs also cover expenses for carrying out the student consumer information services requirements.

A school may draw its allowance from any combination of campus-based programs, or it may take the total allowance from only one program provided there are sufficient funds in that program. However, a school may not draw any part of its allowance from a campus-based program unless it has disbursed funds to students from that program during the award year.

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* The Community Service Learning Program is discussed in Chapter Seven, Section Seven.

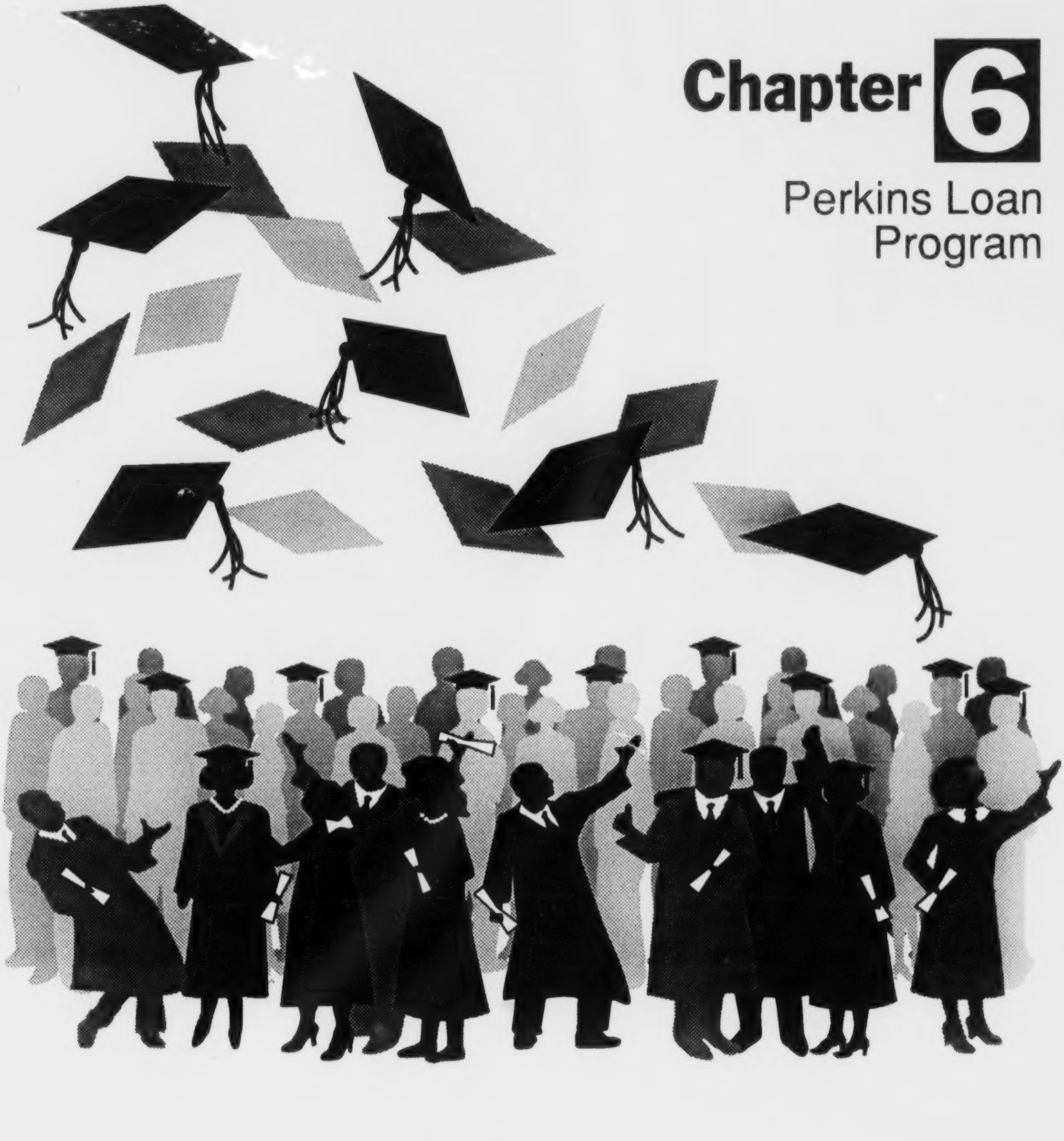
United States
Department of
Education

Office of
Student Financial
Assistance

The Federal Student Financial Aid Handbook, 1992-93

Chapter 6

Perkins Loan Program



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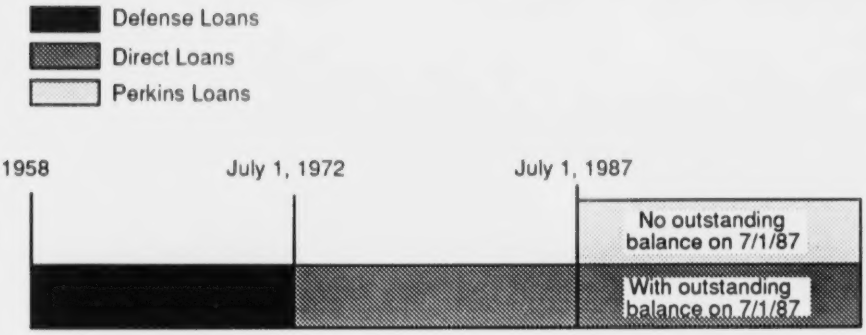
INTRODUCTION

Perkins Loans and Direct Loans are low-interest, long-term loans made through institutional financial aid offices to help needy undergraduate and graduate students pay their postsecondary educational costs. The school must give priority to students with exceptional financial need as defined by the school (see page 6-5). The current interest rate is 5 percent.

Beginning with the 1987-88 award year, the National Direct Student Loan Program was renamed the Perkins Loan Program in honor of the late Carl D. Perkins, former chairman of the House Education and Labor Committee. The change is the second this program has undergone. When it began in 1958, it was the National Defense Student Loan Program. It became the National Direct Student Loan Program in 1972. Loans made before July 1, 1972 are Defense Loans; loans made from July 1, 1972 to June 30, 1987 are Direct Loans; a loan made on or after July 1, 1987 may be either a Direct Loan or a Perkins Loan: if the borrower had an outstanding balance on a previous Defense or Direct Loan on July 1, 1987, the new loan is a Direct Loan; if the borrower had no outstanding balance on a previous Defense or Direct Loan on July 1, 1987, the new loan is a Perkins Loan.


Defense Loans
Direct Loans
Perkins Loans
1958
July 1, 1972
July 1, 1987
No outstanding balance on 7/1/87
With outstanding balance on 7/1/87

RECENT CHANGES

Revised sample promissory notes

Sample promissory notes were published in the **Federal Register** Proposed Rule dated March 13, 1991. These revised sample promissory notes correct typographical errors and clarify the requirements for handling prepayments made by borrowers; the notes reflect the current regulatory requirements. A final Rule will be published in the near future.

Modifications of law and regulations for service in Desert Shield/Storm

In the Notice published in the **Federal Register** on September 16, 1991, the Department announced waivers and modifications of Title IV law and regulations to assist borrowers under the Perkins Loan Program who served on active duty in connection with Operation Desert Shield or Operation Desert Storm. The Department is granted the authority by P.L. 102-26 to make the waivers and modifications listed below for loans that were *not in default* at the time they began active duty:

Period of Active Duty in Desert Shield/Storm	**After Active Duty in Desert Shield/Storm**	**After Grace/Transition Period Ends**
⬇	⬇	⬇
In-School Status or In-School Deferment	Grace Period or Transition Period	Six-month extension if student plans to return to school

- A Perkins, Direct, or Defense Loan borrower is considered to have been in an "in-school" status during the period of active duty service in connection with Operation Desert Shield or Desert Storm; the school is therefore required to suspend collection activity on the loan.

- A Perkins, Direct, or Defense Loan borrower may receive a military deferment for the duration of his or her Desert Shield/Storm service, even if it exceeds the 3-year maximum military deferment normally allowed. This benefit is in effect until September 30, 1997.

- If the borrower had not yet used his or her initial 6- or 9-month grace period, the borrower's grace period begins following his or her active duty service.

- A borrower who had previously used the initial grace period is eligible to receive a 6-month transition period beginning on the date the borrower is no longer serving on active duty; during the transition period, repayment is deferred but interest continues to accrue.

- If a borrower does not enroll as at least a half-time regular student before his or her initial grace or transition period expires, the school that made the loan must grant an extension of the grace or transition period if the student provides a written statement to the school that he or she intends to enroll as at least a half-time regular student within 6 months after the end of the grace or transition period. If the borrower fails to enroll during the extension period, the loan is considered to have entered repayment on the day after the grace or transition period ends; however, the school must offer an administrative hardship deferment for any payments that would have been due during the extension period.

School must resume collection of a defaulted loan 3/1/92 if collection had been suspended

Schools were permitted to suspend the collection activities required under Subpart C - Due Diligence regulations for a borrower already in default when he or she was mobilized in the U.S. Armed Forces for Operation Desert Shield or Desert Storm (refer to "Dear Colleague" letter Gen-91-11, February 1991, page 4). However, a school that chose to suspend collections activities on a defaulted loan was required to remind the borrower no later than January 15, 1992 that collection of the loan resumes as of March 1, 1992.

Promissory note Addendum for law enforcement cancellation

An Addendum to the promissory note for Perkins Loans and Direct Loans made on or after November 29, 1990 was distributed in the "Dear Colleague" letter CB-91-6, April 1991. The Addendum contains the new cancellation provision for law enforcement or corrections officers. A school must provide a copy of the Addendum to all borrowers who had a Perkins Loan or Direct Loan made on or after November 29, 1990. The school must have the borrower sign both the original promissory note and the Addendum.

Elimination of statute of limitations on student loan collections

Any statute of limitations previously in effect for collection of Perkins/National Direct Student Loans was eliminated by P.L. 102-26, as of April 2, 1991. The amendment provides that the Federal Government and schools may take action to collect defaulted loans by filing lawsuits, enforcing judgments, or by garnishment or offset actions, regardless of any Federal or State statute of limitation that might otherwise have applied to these collection actions (refer to "Dear Colleague" letter GEN-91-19, June 1991). Prior to this amendment, the limitation period for lawsuits to collect defaulted loans was 6 years. In addition, P.L. 102-164, signed November 15, 1991, allows the Department to garnish the disposable pay of a borrower whose defaulted Defense, Direct, or Perkins Loan has been assigned to the Department for collection.

Garnishment of disposable pay

New exit interview requirements

Two new laws affect information a school must provide to or collect from a borrower during an exit interview. P.L. 101-610, enacted on November 16, 1990, requires a school to provide information during the exit interview about the availability of partial or total cancellation of a Perkins Loan, or deferment of Perkins/Direct Loan repayment, if the borrower serves as a volunteer under the Peace Corps or Domestic Volunteer Service Act of 1973—ACTION programs (a Direct Loan borrower is not eligible for a cancellation for this service).

P.L. 102-164 requires a school to collect the following additional information from the borrower during the exit interview: the borrower's expected permanent address, the name and address of the borrower's expected employer, and the address of the borrower's next of kin.

PROGRAM PARTICIPATION AGREEMENT AND PERKINS LOAN FUND

As discussed in Chapters Three and Five, a school that wants to participate in any SFA program must sign a Program Participation Agreement with the Secretary. The Agreement must be signed by the school official legally authorized to assume, on the school's behalf, the Agreement's obligations.

For all of the programs, the Agreement provides that the school must use the funds it receives solely for the purposes specified in the regulations for each program and must administer each program in accordance with the Higher Education Act of 1965, as amended, and the Student Assistance General Provisions regulations.

In addition, the Agreement for the Perkins Loan Program requires the school to establish and maintain a Perkins Loan Fund and to deposit into the Fund:

- The Federal Capital Contribution (FCC) the school receives as its Federal allocation for the program for each award year (the allocation procedures are discussed in the Introduction to Chapter Five, under "Application for Funds");
- The school's matching share—the Institutional Capital Contribution (ICC) equal to at least one-ninth of the FCC;
- Payments the school receives for repayment of loan principal, interest, collection charges, and penalty or late charges on loans from the Fund;
- The aggregate amount the school receives from the Federal Government during a fiscal year for all cancellations of Direct and Perkins Loans (such as teacher cancellations—see Section Five of this Chapter: Cancellation);
- Any other earnings on assets of the Fund, including net interest on assets deposited in an account that earns interest (total interest minus bank charges); and
- Any short term loans the school makes to the Fund in anticipation of receipt of its FCC or of loan collections (the Federal Government will not pay interest to schools on these loans).

SECTION ONE: STUDENT ELIGIBILITY

Exceptional financial need and eligibility for Pell Grants

To be eligible for a Perkins Loan, a student must meet the eligibility requirements listed in Chapter Two. There are two additional requirements for the Perkins Loan Program. First, a school must give priority to those students with exceptional financial need as defined by the school using procedures it establishes for that purpose. The school's selection procedures must be in writing, uniformly applied, and kept on file at the school. Second, the school must determine an undergraduate student's eligibility or ineligibility for a Pell Grant before he or she can receive a loan; a preliminary hand calculation is acceptable after a student has applied for a SAR with a Pell Grant processor. Note that even if the hand calculation shows the undergraduate student will be ineligible for a Pell Grant, the student must apply for it.

Loan not permitted for second undergraduate degree

Both undergraduate and graduate students are eligible to apply for a loan under the Perkins Loan Program. However, persons who have earned a bachelor's or first professional degree are not eligible to receive a Perkins Loan to pursue a *second undergraduate* degree (refer to "Dear Colleague" letter CB-91-9, May 1991, page 4).

Willingness to repay

Another factor a school must consider in selecting among eligible applicants is evidence of a student's willingness to repay. Default on a previous loan or a history of unpaid debts indicates an unwillingness to repay. However, if the borrower has made satisfactory arrangements to repay his or her debts, the school may award a Perkins Loan. (For more information, see "Deferment and Default," in Section Four of this Chapter: Deferments.) As a Perkins Loan/NDSL that is discharged in bankruptcy is not considered to be in default, the student whose loan has been discharged in bankruptcy is eligible to receive assistance from Title IV SFA programs. Nonetheless, a school may deny the student a Perkins Loan/NDSL on the basis that a loan previously discharged in bankruptcy is evidence that the student would be "unwilling to repay" the Perkins Loan/NDSL.

Previous cancellation due to disability

If a student has obtained a cancellation of a previous Perkins/NDSL due to permanent and total disability, and is applying for a subsequent Perkins/NDSL, the school must consider the previous cancellation in determining the borrower's willingness to repay a subsequent loan. If the borrower meets certain conditions, he or she may be eligible to receive additional Perkins/NDSL funds. These conditions are:

- the borrower reaffirms (agrees to repay) any Perkins/NDSL debt that was previously cancelled due to the borrower's disability;
- the borrower obtains a certification from his or her physician that the borrower's condition has improved and that he or she has the ability to engage in substantial gainful activity; and
- the borrower signs a statement that the borrower is aware that his or her Perkins/NDSL cannot be cancelled in the future on the basis of any present impairment, unless the condition substantially deteriorates to the extent that the definition of total and permanent disability is met.

If the borrower meets the above requirements as well as all other eligibility criteria, he or she will be eligible to receive a Perkins/NDSL.

As a result of the Student Loan Reconciliation Amendments of 1989, students serving in a medical internship or residency program are not eligible to receive a Perkins Loan (or Stafford Loan or Supplemental Loan for Students), beginning January 1, 1990.

Schools may set priorities

Schools must make loans reasonably available to all eligible students, to the extent of available funds. A school may not exclude a particular category of students, such as graduate students, students enrolled less than half-time, or independent students. However, the school may set certain priorities when packaging aid. As an illustration, a school could first distribute Perkins Loans to full-time third-year students who have at least $500 in financial need after the FC, Pell Grants, and any scholarships received have been subtracted from the cost of attendance. Perkins Loan funds may not be used *exclusively* for such a group, of course, but it is permissible to establish priorities.

Schools can request certain disclosures

In administering the Perkins Loan Program, a school must comply with the equal credit opportunity requirements of Regulation B (12 CFR Part 202). The Department considers the Perkins Loan Program to be a credit assistance program authorized by Federal law for the benefit of an economically disadvantaged class of persons within the meaning of 12 CFR 202.8(a)(1). Therefore, a school may request that a loan applicant disclose marital status, income from alimony, child support, and spouse's income and signature.

Payment to student who drops out

As stated earlier, a student who drops out *before* receiving his or her Perkins Loan or SEOG cannot receive any payment for the payment period. This is in contrast to the Pell Grant Program, which allows the school to pay the student for expenses up to the day the student drops out or becomes ineligible for payment. If a student drops out *after* receiving his or her Perkins Loan or SEOG, but before the end of the payment period, the school determines the amount of any refund and repayment as discussed in Chapter Three, Section Four, "Refunds and Repayments."

SECTION TWO: MAKING AND DISBURSING LOANS

Financial need
- Other resources
= Maximum loan eligibility

As discussed in Chapter Five, a financial aid administrator may not award or disburse a Perkins or Direct Loan to a student if that loan, when combined with all other resources, would exceed the student's need. The aid administrator must take into account those resources that he or she can reasonably anticipate at the time aid is awarded to the student, those the school makes available to its students, or those the aid administrator knows about. A list of resources is included in Chapter Five, Section Three: Resources and Overawards.

LOAN MAXIMUMS

The cumulative maximum amount a student may borrow is—

- $4,500 for a student who has not completed two academic years of study toward a bachelor's degree;
- $9,000 for a student who has completed two academic years of study leading to a bachelor's degree and has achieved third-year status (this *includes* any amount borrowed during the first two years of study); and
- $18,000 for graduate or professional study (this *includes* any amount borrowed for undergraduate study).

Repayment does not establish new loan limit

These cumulative maximum amounts include all Defense, Direct, and Perkins Loans a borrower may have. Unlike the Stafford Loan Program (see Chapter Ten), repayment does not establish a new cumulative loan limit. For example, a student who had borrowed $18,000 while earning bachelor's and master's degrees would not be eligible for a new loan for a doctoral program, even though the student had repaid part or all of the $18,000.

Teaching certificate students

Students who return to school to take courses required for a teaching certificate may be considered either undergraduate or graduate students, depending on the school's policy. That decision is left to the school. If the school considers such students graduate students, and the school has a student who has already borrowed $9,000, that student is still eligible to receive an additional Perkins/NDSL. If the school considers these students to be taking undergraduate courses, the student who has already borrowed $9,000 would not be able to receive an additional loan. A student may receive the higher loan limits only if he or she is enrolled in an eligible graduate program for the purpose of obtaining a teaching certificate. In some types of programs, the State education agency awards the teaching certificate rather than the school; these programs are eligible programs provided the school also issues a certificate of program completion.

COUNSELING STUDENTS

School must provide certain information

Before making the first Perkins Loan disbursement, the school must have the student sign the promissory note (see "The Promissory Note" in Section Two of this Chapter), and *must* furnish each student with certain information—each student must be informed about his or her rights and responsibilities under the Program. The student must be informed that the loan may be used only for educational expenses, and that he or she must repay it. The school should also make sure the student knows that the *school* holds the promissory note.

A school must also provide the following information:

- the name of the school and the address where communications and payments should be sent;
- the principal amount of the loan, the interest rate, the *total* amount the student will owe, and an estimate of the monthly payment needed to repay that amount; the student must also be told when he or she must start repayment, and when he or she must begin paying the interest that accrues;
- the yearly and total amounts the student can borrow, the maximum and minimum repayment terms the school may impose, and the minimum monthly repayment;
- a complete list of charges connected with making the loan, including whether those charges are deducted from the loan, or the student must pay them separately;
- an explanation of the costs that may be assessed the student in collecting the loan, such as late charges and collection and litigation costs;

- a summary of deferment and cancellation provisions, including those for service in the Peace Corps, VISTA, or for comparable full-time service as a volunteer for a tax-exempt organization of demonstrated effectiveness in the field of community service;
- a brief notice about the Department of Defense program for repaying loans based on certain military service (for more information on this program, see Section Five of this Chapter: Cancellations);
- an explanation of default and its consequences, including a statement that the default will be reported to a credit bureau or credit reporting agency;
- the effect of accepting the loan on the student's eligibility for other student financial aid;
- an explanation of refinancing and loan consolidation options; and
- a reminder that the student can prepay the entire balance and interest at any time, without penalty.

The school must provide this information to the student—in writing—as part of the application material, as part of the promissory note, or on a separate form. While the information can be mailed to students, it is preferable for the aid administrator to meet with them to answer their questions and to emphasize their responsibility to repay their loans.

Obtain information from students

The school is encouraged to use this initial counseling session to obtain the following information from students, which could be valuable later for use in collection procedures:

- student's name, current address, and Social Security number;
- parents' permanent address;
- telephone numbers of the student and his or her parents;
- expected date of graduation;
- spouse's name and address;
- spouse's employer;
- names and addresses of two or three personal acquaintances; and
- student's driver's license number.

This information will help locate students who leave school without notice or who do not attend the exit interview. Effective "pre-loan" counseling sessions will satisfy the requirement to tell each borrower about his or her rights and obligations and provide information about the nature of a Perkins Loan. However, this counseling may not be used to satisfy the requirement for an exit interview. (See "Exit Interview" in Section Six of this Chapter for more information.)

THE PROMISSORY NOTE

The promissory note is the legally binding document that is evidence of a borrower's indebtedness to a school. A student must sign this note before he or she can receive any Perkins funds and must be given a copy of the note at (or before) the exit interview. The note includes information about the interest rate on the loan, repayment terms, minimum rates of repayment, deferment and cancellation provisions, and late charges.

If the lending institution does not have a valid note or other written evidence that would be upheld in a court of law, the institution has no recourse against a borrower who defaults. In such cases, the school would have to repay to its Perkins Loan Fund any amounts loaned as well as any administrative cost allowance claimed on those amounts. Two examples of invalid notes are notes that have been changed after they were signed and notes without proper signatures or dates for loan advances.

Sample promissory notes—3/13/91 Federal Register

Sample promissory notes were included in the Proposed Rule published in the **Federal Register** March 13, 1991. These sample promissory notes correct typographical errors in the notes previously published in the December 1987 campus-based regulations and clarify the requirements for handling prepayments made by borrowers; the notes reflect the current regulatory requirements. An Addendum to the promissory notes for Perkins Loans and Direct Loans made on or after November 29, 1990 was distributed in the "Dear Colleague" letter CB-91-6, April 1991. The Addendum contains the new cancellation provision for law enforcement or corrections officers, which will be incorporated in the final regulations to be published in the near future. Until this occurs, schools must provide a copy of the Addendum to all borrowers who had a Perkins Loan or Direct Loan made on or after November 29, 1990 in order to inform them of the new law enforcement cancellation provision. The school must have each borrower sign and date both the original promissory note and the Addendum.

There are two sample notes for Perkins Loans: one for borrowers attending at least half time and one for borrowers attending less than half time. Two other notes are for Direct Loans—again, one note for borrowers attending at least half time, one for borrowers attending less than half time. Using two sets of notes will avoid confusion over which provisions apply to which borrowers. Once a student has been categorized as a Perkins or Direct Loan borrower, the provisions of the appropriate promissory note will continue with that borrower for the life of the loan.

Provisions common to Direct and Perkins promissory notes

Direct Loan notes for loans made for enrollment beginning on or after January 1, 1986 have three new provisions in common with Perkins Loan notes—provisions that were not included in Direct Loan notes for enrollment before that date :

- A school must assess the borrower a late charge[*] for failing to pay all or part of an installment when due. The charge may not exceed 20 percent of the borrower's monthly, bimonthly, or quarterly payment. The school must establish a charge based on reasonable expenses incurred in billing a borrower. (For more information, see "Billing Procedures" in Section Six of this Chapter.)

- If the amount of the borrower's monthly or other payment is not a multiple of $5, the school may round each payment to the next highest $5 increment.

- The school must charge a borrower for attorney's fees and other reasonable collection costs and charges necessary for the collection of any amount not paid when due. "Reasonable collection costs" include the full amount of contingent fees charged the school by a collection firm.

In addition, for all Perkins Loans and Direct Loans made on or after November 29, 1990, the school must provide to the borrower a copy of the Addendum containing the new cancellation provision for law enforcement or corrections officers (refer to the previous page).

Schools encouraged to issue new Direct Loan notes

Keep old promissory notes

Schools are strongly encouraged to issue new Direct Loan notes so that the new provisions will be incorporated. New notes must list the borrower's old advances and the original dates they were made. The borrower must initial or sign next to each advance and must date each signature. *Schools may deny new advances if a borrower does not want to re-sign.* When the borrower re-signs for past advances, he or she is agreeing to the three revised provisions. Schools should not destroy their old promissory notes, but should mark them as superseded and keep them with the new notes.

---

[*] The Consolidated Omnibus Budget Reconciliation Act of 1985 and HEA of 1986 require schools to assess late charges for loans made for periods of enrollment beginning *on or after* January 1, 1986. However, the Department did not begin to enforce this provision until July 1, 1987. (For loans made for periods of enrollment beginning *before* January 1, 1986, the sections of the promissory note authorizing late or penalty charges were optional provisions.)

SCHOOL-DESIGNED NOTE

Schools must base their promissory notes on the revised notes in the Proposed Rule published in the **Federal Register** March 13, 1991 or on the sample notes in Appendices A through D of the campus-based regulations when final regulations are published. The notes must contain certain minimum information (see the Appendix at the end of this chapter); the sample notes also include optional provisions, which are bracketed. A school may develop its own notes, as long as the required provisions are included; the school's notes may also include some or all of the optional provisions. (Paragraphs III(5)(A) and III(5)(B), regarding a $30 per month minimum repayment, are optional in both Perkins and Direct Loan notes; however, a school must either include both paragraphs or omit both paragraphs.) If a school is developing its own notes, it may use either "open ended" or "closed-end" ("limited") notes. A note may be printed on more than one sheet of paper if the borrower and/or endorser signs each page, or if each page contains the number of that page plus the total number of pages in the note (for example, page 1 of 3, page 2 of 3).

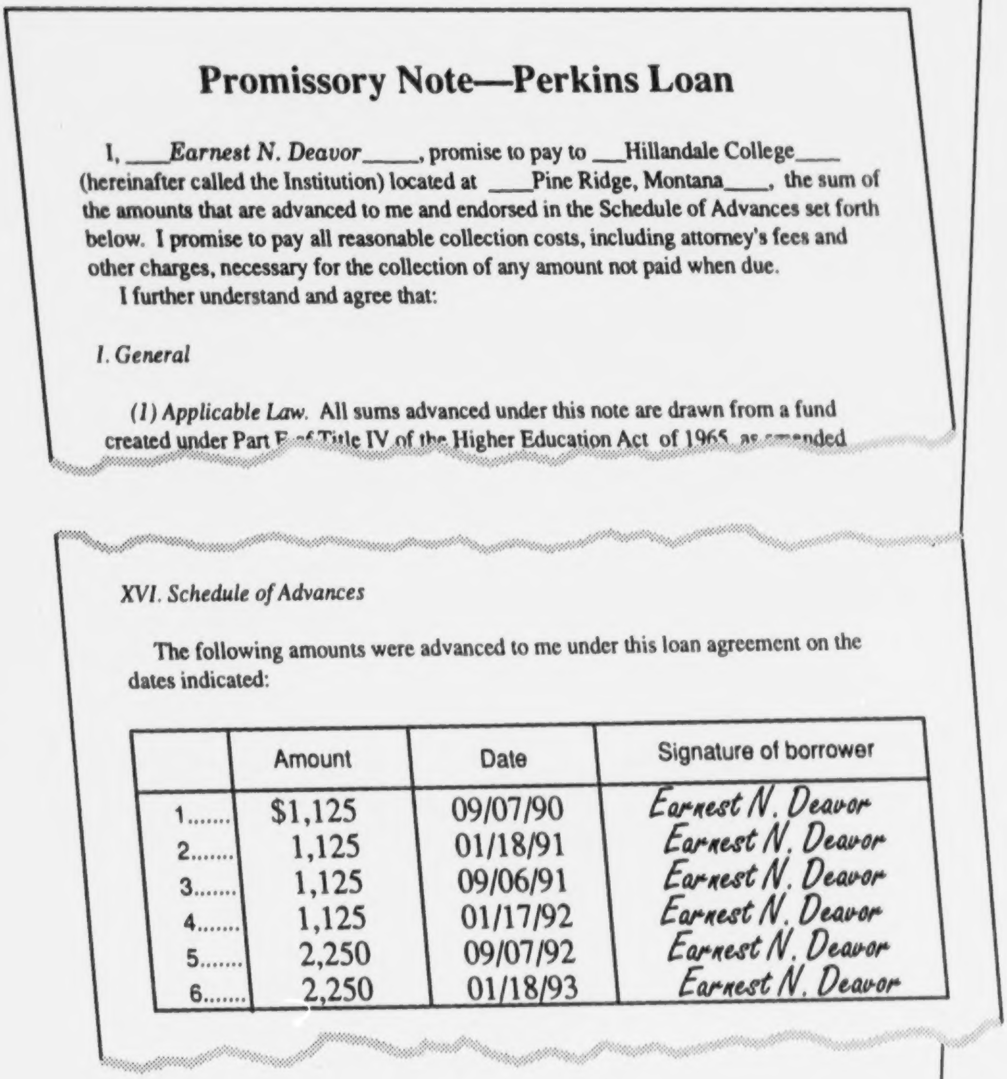
Closed-End valid for 12 months—contains loan amount

- *"Closed-End" or "Limited" Note*: This note is valid for not more than 12 months and usually covers one award year or one academic year. The amount of the loan must be entered in the note. Closed-end notes can be designed for a single disbursement or multiple disbursements. If a school uses multiple disbursements, the borrower must sign for each advance. If there will be only one disbursement, the borrower's signature at the end of the note is sufficient.

Open-Ended does not contain loan amount

- *"Open-Ended" Note*: The sample notes in the March 13, 1991 Proposed Rule are open-ended notes. An open-ended note does not itself contain the specific amount of the approved loan. Instead, at the time of each disbursement, the school must enter the amount advanced and the date of receipt in the "Schedule of Advances," which is made a part of the note. The borrower must sign this Schedule *each time* he or she receives a disbursement. *It is not acceptable practice for the student to sign in advance.* If a school uses an open-ended note, it does not have to issue new notes for future loans it makes to the same borrower, *unless* the requirements of the Perkins Loan Program are changed by statute or regulation. An open-ended note may be used for several years.

Example of Schedule of Advances in an Open-Ended Note:



Promissory Note—Perkins Loan

I, ____*Earnest N. Deavor*_____, promise to pay to ___Hillandale College____ (hereinafter called the Institution) located at ____Pine Ridge, Montana____, the sum of the amounts that are advanced to me and endorsed in the Schedule of Advances set forth below. I promise to pay all reasonable collection costs, including attorney's fees and other charges, necessary for the collection of any amount not paid when due.

I further understand and agree that:

I. General

(1) Applicable Law. All sums advanced under this note are drawn from a fund created under Part E of Title IV of the Higher Education Act of 1965, as amended

XVI. Schedule of Advances

The following amounts were advanced to me under this loan agreement on the dates indicated:

	Amount	Date	Signature of borrower
1.......	$1,125	09/07/90	Earnest N. Deavor
2.......	1,125	01/18/91	Earnest N. Deavor
3.......	1,125	09/06/91	Earnest N. Deavor
4.......	1,125	01/17/92	Earnest N. Deavor
5.......	2,250	09/07/92	Earnest N. Deavor
6.......	2,250	01/18/93	Earnest N. Deavor

Optional provisions

There are certain optional provisions a school may include in its promissory note. Those not included cannot be used in loan collection. The provisions are—

May require at least $30 per month

1. *Minimum Repayment:* Under a10-year repayment plan, if a borrower's monthly payments would be less than $30, a school may require a minimum repayment of $30 per month (or the equivalent amounts in bimonthly or quarterly installments).

May withhold transcript of student in default

2. *Academic Transcripts:* A school may include a provision that it will not release a student's academic transcript if the student is in default.

May attach assets

3. *Confession of Judgment:* This provision allows the school to attach the borrower's assets immediately upon default. The assets that can be attached vary by State.

Schools should consult their attorneys if they want to include options 2 or 3 in their notes.

REPAYMENT SCHEDULE

Repayment schedule provisions

At the time a borrower leaves school, the school must conduct an exit interview (see Section Six of this Chapter: Due Diligence—Loan Collection), during which a repayment schedule is provided to the borrower. The Department of Education recommends a repayment schedule that shows the principal and interest due on each installment and the amount left to be paid. This type of schedule is not a requirement; however, as a minimum, a repayment schedule should contain—

- the number of repayments of principal or the number of equal repayments,
- the rate of interest,
- the date the first repayment is due, and
- the frequency of repayments.

To calculate the amount due in each payment over a period of 10 years, including principal and interest, schools may use the following table of "constant multipliers." The table is based on the assumption that no school will exercise a minimum repayment option.

10-year repayment table

Annual Rate	Payment Frequency	Payments per Year	Total Payments	Constant Multiplier
3%	Monthly	12	120	.0096562
3%	Bimonthly	6	60	.0193329
3%	Quarterly	4	40	.0290302
4%	Monthly	12	120	.0101245
4%	Bimonthly	6	60	.0202764
4%	Quarterly	4	40	.0304556
5%	Monthly	12	120	.0106065
5%	Bimonth.y	6	60	.0212470
5%	Quarterly	4	40	.0319214

For example, a borrower with a Defense Loan of $1,500 at 3 percent, a Direct Loan of $2,000 at 4 percent, and a Direct Loan of $2,000 at 5 percent would have a total debt of $4,500. Using the table above to calculate monthly payments over a 10-year period results in the following amounts:

3% loan:	$1,500	X	.0096562	=	$14.48
4 % loan:	$2,000	X	.0101245	=	$20.25
5% loan:	$1,000	X	.0106065	=	$10.61
					$45.34

If the *total* of the monthly repayments for a Defense and Direct Loan is *at least $30*, no school may exercise a minimum repayment option, even if the Defense Loan repayment is less than $15 or the Direct Loan repayments are less than $30. Since the total monthly repayment in the example on the previous page is more than $30, no school may exercise a minimum repayment option, even though the Defense Loan repayment is less than $15 in this example.

Proportional repayment under minimum $30 option

If the total monthly repayment of more than one loan would otherwise be *less than $30*, and a school exercises the minimum $30 repayment option, the 10-year table of constant multipliers cannot be used, because the regulations require the $30 minimum repayment to be divided among the loans in the same proportion that the original loan principal of each loan bears to the total original principal of all loans.

For example, a borrower with a Direct Loan of $1,500 and a Direct Loan of $1,000 has a total debt of $2,500. Using the "Constant Multiplier" table above, the total monthly repayment on the two loans would be less than $30:

$1,500 X .0106065 = $15.91 per month on loan #1
$1,000 X .0106065 = $10.61 per month on loan #2
$26.52 total payment per month

Since the monthly payment on the two loans is less than $30, the school may decide to exercise the minimum $30 repayment option. If it does, the monthly payment for each loan is calculated by dividing the original loan principal of the loan by the total original principal of all loans, as follows:

$1,500 ÷ $2,500 = .600000 X $30 = $18 per month on loan #1
$1,000 ÷ $2,500 = .400000 X $30 = $12 per month on loan #2
$2,500 $30 total payment per month

This same proportional loan payment method is used to calculate loan payments to more than one school.

If the borrower has received loans with different grace periods and deferments, the school must treat each note separately, and the borrower must pay the minimum monthly payment that is applicable to each loan that is not in a grace or deferment period.

DISPOSITION OF PROMISSORY NOTE AND REPAYMENT SCHEDULE

Keep in locked, fireproof container

The school must keep the original signed promissory note and repayment schedule in a locked, fireproof container until the loan is repaid or until the originals are needed in order to enforce collection of the loan. Only authorized personnel may have access to the notes.

Attaching repayment schedule to note—required in some cases

Current promissory notes, modeled on the notes published in the December 1, 1987 regulations or on the notes in "Dear Colleague" letter CB-90-24 (LD), do not require that the repayment schedule be *attached* to the note. However, promissory notes prior to that date did include a requirement to attach the repayment schedule to the promissory note. Therefore, a school should be aware that if a promissory note has this requirement in the "Repayment" section of the note, the school must be careful to attach the repayment schedule to that note.

Release of original note

If the original promissory note is released to enforce repayment, the school must keep a certified true copy. A certified true copy is a photocopy (front and back) of the original promissory note that bears the following certification statement signed by the appropriate school official:

> "CERTIFIED TRUE COPY: I declare under penalty of perjury that the foregoing is a true and correct copy of the original Promissory Note.
> Signature: ______________________________
> Title: ______________________________
> Date: ______________________________"

At the exit interview, the school must provide a copy of the signed promissory note and the signed repayment schedule to the borrower. If the school is unable to obtain a *signed* repayment schedule, it must provide the schedule the borrower is to follow in repaying the loan.

If an error is discovered in a promissory note, the school should obtain legal advice about what action should be taken. The appropriate school official, the student, and if necessary, an endorser, should sign or initial all approved changes in the note.

Borrower receives original note after loan is paid in full

When a loan has been repaid, the school should mark the note "PAID IN FULL," have it certified by an official of the school, with the date paid, and give or mail the original note to the borrower. The school must keep a copy of the note for at least five years after the date the loan was repaid in full.

ASSIGNMENT

A promissory note may be assigned only to—

- the U.S. Department of Education or an institution approved by the Department, or
- a school to which the borrower has transferred if that school is participating in the Perkins Loan Program (see "Assignment" in Section Seven of this Chapter).

Except under the circumstances listed above, a promissory note may not be assigned or transferred. The school that transfers a note assigns all rights to amounts collected to the school that accepts responsibility for the note.

DISBURSING FUNDS

Loans may be either disbursed directly to students or credited to their accounts. Whichever method a school chooses, it must keep either cancelled checks or vouchers as evidence of payment.

Directly—up to 10 days before class begins

Credited to account—up to 3 weeks before class begins

Funds for a payment period may not be disbursed until the student registers for that period. (Correspondence students must submit their first completed lessons before receiving funds.) A school may *disburse directly* to the registered student no earlier than *10 days* before the first day of classes of a payment period. A school may *credit an enrolled student's account* no earlier than *3 weeks* before the first day of classes of a payment period. (These provisions are also true for the SEOG Program.) This disbursement policy offers flexibility and is consistent with that of the Pell Grant Program.

Keep in mind that if a school makes payments before the student begins attendance, it must accept the responsibility resulting from any overpayment. If a student should withdraw—or be expelled—before the first day of classes, for example, all funds disbursed are considered an overpayment and must be restored to the Perkins Loan Fund. A student who never begins class is considered to have withdrawn.

Power of attorney

A school official may not obtain a student's power of attorney to endorse any check used to disburse funds or to sign for any loan advance unless the Department has granted prior approval. Such a power of attorney (to allow a school to act on behalf of a student) would not be granted by the Department unless the school could demonstrate that there is no one else who could act on behalf of the student (such as a relative, landlord, or member of the clergy, for example).

Advance loan during each payment period at standard term schools

If a school is making a loan for a full academic year and the school uses standard academic terms, it must advance a portion of the loan during each payment period. Payment periods are defined as semesters, trimesters, or quarters. The amount to be advanced is usually determined by dividing the award by the number of payment periods in the academic year.

Pay at least twice a year at non-standard term schools

If the school does not use standard academic terms, it must advance funds at least twice during the academic year—once at the beginning and once at the midpoint. Normally, no more than half the loan may be advanced before the midpoint. A school must also advance funds at least twice during an eligible six-month training program.

For a student attending less than a full academic year, the amount to be advanced is determined by dividing the award by the number of payment periods the student will attend in the academic year. Only one payment is necessary if the total amount awarded to a student for an academic year under the Perkins Program is less than $501.

Uneven costs

If a student incurs uneven costs or resources during an academic year and needs additional funds during a payment period, the school may advance the additional amount *whether or not the school uses standard academic terms*. For example, a student will receive a $1,000 Perkins Loan, and the student must spend $300 for books and supplies at the beginning of the school year. That $300 could be disbursed along with the first payment. To determine the first payment, subtract the extra amount (in this case, $300) from the total loan and divide the remainder by the number of payment periods. The regular amount for one payment period is then added to the extra amount to determine the initial payment.

If a school has a two-semester system, the payments would be determined as follows:

$1,000		Total loan
- 300		Additional costs at beginning of school
$ 700	÷	2 payment periods = $350 regular payment
$ 350		Regular payment
+300		Extra for books and supplies
$ 650		Total first disbursement ($350 would be the second disbursement)

Within a payment period, the school may advance funds in whatever installments it determines will best meet the student's needs.

SECTION THREE: REPAYMENT

Different repayment terms depending on when loan was made

Repayment begins after an initial "grace period" has expired, or may begin sooner at the borrower's request. Grace periods are normally either six or nine months—their length varies because of legislative changes to the Perkins/NDSL Program over the years. These changes also result in different repayment terms, depending on when a borrower took out a loan. If a borrower has several loans, each is subject to the repayment terms in effect at the time the particular loan was made.

REPAYMENT PLAN

The following provisions apply to the repayment plan:

- the school must establish a repayment plan before the student ceases to be at least a half-time student;
- if the last scheduled payment would be $15 or less, the school may combine it with the next-to-last payment; and
- the school must apply any repayment received in the following order—
  (1) collection costs,
  (2) late charges (or penalty charges),
  (3) accrued interest,
  (4) principal.

LENGTH OF REPAYMENT PERIOD

The term "repayment period" generally refers to the span of time the borrower has to repay his or her loan—usually a maximum of 10 years from the time repayment begins. (For the exception, see the discussion of "low-income individual" on the next page.) Borrowers must repay their loans, plus interest, in quarterly, bimonthly, or monthly installments over a 10-year period. The length of a repayment period may be less than 10 years because of minimum monthly repayment requirements (see "Minimum Repayment Rates," in Section Three of this Chapter for more information). If a borrower wants to repay the loan in graduated installments, he or she must request permission from the school; if the school agrees to this type of repayment, a graduated repayment schedule is prepared and submitted to the Department of Education for approval. If the Department of Education approves the school's request, the borrower may use the graduated method of repayment.

Repayment periods extended by deferments

A borrower's repayment period may be *extended* by deferments (that is, periods of time during which no payments are required—see Section Four of this Chapter: Deferments) or may be extended to avoid hardship (as in cases of prolonged illness or unemployment). In some cases, payments may be *reduced* for "low-income individuals" (see below).

Extension for low-income individual

For Direct and Perkins Loans made on or after October 1, 1980, a school may *extend* the borrower's repayment period up to 10 *additional* years if, during the course of the repayment period, the school determines that the borrower qualifies as a "low-income individual."

A "low-income individual" is one whose family's taxable income for the preceding calendar year did not exceed 150 percent of the poverty level established by the Bureau of the Census for that year.* The family's taxable income includes income of the borrower, borrower's spouse and legal dependents. The latest poverty thresholds may be obtained from the Bureau of the Census by telephoning (301) 763-8578.

Adjustment for low-income individual

The school may also *adjust* the repayment schedule to reflect the family income of a borrower who is a low-income individual. (When we say "adjust," we mean the school could require the borrower to pay $10 for six months, for example, and then $50 a month to catch up. In this way, the repayment period would *not* be extended. Or, the school could allow the borrower to pay $10 a month for a year and then resume normal payments—$30 a month, for example. This *would* extend the repayment period.) The school must review the borrower's status annually to determine if he or she still qualifies as a "low-income individual." If not, the school must adjust the repayment schedule appropriately.

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* This definition may soon change. Please refer to the Notice of Proposed Rulemaking published in the **Federal Register** November 13, 1990, which, if it becomes final, would amend the definition of "low-income individual" in Section 674.33(c)(2).

Initial grace period

As mentioned earlier, a "grace period" is the period of time before the borrower must begin repaying the loan. An "initial grace period" is one that immediately follows a period of enrollment and immediately precedes the date repayment is required to begin for the first time. For borrowers who have been attending at least half time, repayment begins either six or nine months after the borrower drops below at least half-time study at an eligible institution or at a comparable school outside the U.S. The repayment period may begin earlier if the borrower requests it. Repayment of a Perkins Loan begins *nine months* after the borrower drops below at least half-time study. Repayment of a Direct Loan made before October 1, 1980 begins *nine months* after the borrower drops below at least half-time study. Repayment of a Direct Loan made on or after October 1, 1980 begins *six months* after the borrower drops below at least half-time study.

Grace period for Desert Shield/Storm borrowers

A borrower who was in active duty service in connection with Operation Desert Shield or Desert Storm and whose loan was not in default on the day he or she began active duty service is entitled to certain waivers and modifications of the law and regulations that may affect the grace period. These modifications are included in the regulations published in the **Federal Register** September 16, 1991; a summary of the changes are in the Introduction to Chapter Six, pages 6-2 and 6-3

Post-deferment grace period

A "post-deferment grace period" is the period of 6 consecutive months that immediately follows the end of certain periods of deferment and precedes the date on which the borrower must resume repayment on the loan. Perkins Loans and all Direct Loans made on or after October 1, 1980 have a 6-month post-deferment grace period after each of the deferments that apply to those loans except after the deferment for hardship. Loans made *before* October 1, 1980 do not have *any* post-deferment grace periods. Neither the deferment nor the grace period is included in determining the 10-year repayment period.

GRACE PERIODS

(for Borrowers Attending at Least Half-Time)

	Perkins Loans	Direct Loans made on or after 10/1/80	Direct Loans made before 10/1/80
Initial Grace Period	9 months	6 months	9 months
Post-Deferment Grace Period	6 months	6 months	None

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Grace period is continuous

For students attending at least half time, the grace period does not end until they cease to be at least half time for a *continuous* period of 6 or 9 months, whichever is applicable (see the discussion of repayment periods beginning on the next page). For example, a borrower takes out a loan in the fall quarter, drops out of school for the winter quarter, and resumes at least half-time study for the spring quarter. The borrower would still be entitled to a full grace period if he or she again leaves school or drops below half-time status.

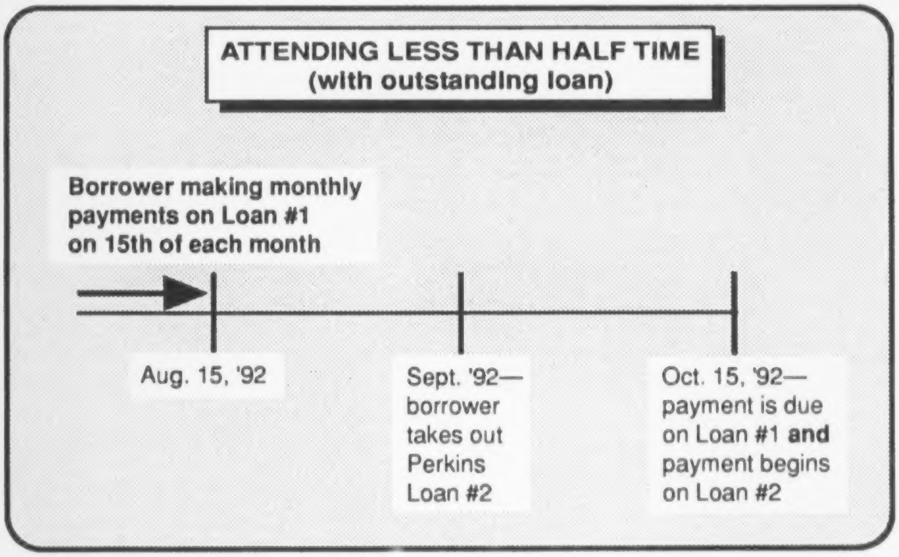
Grace periods for more than one loan

If a borrower has received loans with different grace periods (and different deferments), the borrower must repay each loan according to the provisions in its promissory note; the borrower must pay the minimum monthly payments that apply to each loan that is not in a grace or deferment period.

Less than half-time borrowers—with outstanding loan(s):

A borrower who is attending *less than half time* and who has an outstanding Direct or Perkins Loan must begin repayment on an *additional* loan when the *next scheduled installment* of the outstanding loan is due; there is no formal grace period or in-school deferment on the new loan.

For example, suppose the borrower has been making monthly repayments on Perkins Loan #1. He takes out Perkins Loan #2 in September 1989. His next scheduled payment on Loan #1 is October 15. He will begin repaying Loan #2 at the same time. *Remember, the repayment status of the outstanding loan determines the repayment status of the second loan.*

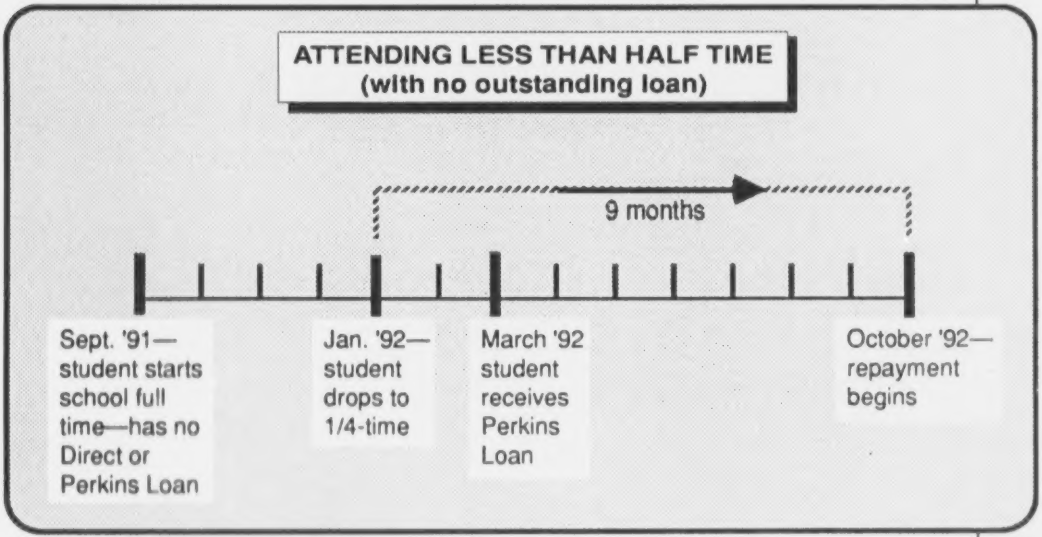

ATTENDING LESS THAN HALF TIME
(with outstanding loan)
Borrower making monthly payments on Loan #1 on 15th of each month
Aug. 15, '92
Sept. '92—borrower takes out Perkins Loan #2
Oct. 15, '92—payment is due on Loan #1 and payment begins on Loan #2

Less than half-time attendance—with no outstanding loan(s)

A borrower who is attending less than half time and who has no outstanding Direct or Perkins Loan must begin repaying a new loan the *earlier* of—

- 9 months from the date the loan was made, or
- the end of a 9-month period that began on the date the borrower ceased enrollment as at least a regular half-time student and that includes the date the loan was made.

For example, a student starts school full time in September 1991. She does not have an outstanding Direct or Perkins Loan. In January 1992, she drops to one-quarter time. In March, she receives a Perkins Loan. Nine months from the date the loan was made will be December. Nine months from the time she dropped below half-time is October, and this 9-month period includes the date the loan was made. As October is earlier than December, she must begin repayment in October.


ATTENDING LESS THAN HALF TIME
(with no outstanding loan)
9 months
Sept. '91—student starts school full time—has no Direct or Perkins Loan
Jan. '92—student drops to 1/4-time
March '92 student receives Perkins Loan
October '92—repayment begins

ESTABLISHING REPAYMENT DATES/COMPUTING INTEREST

Date first payment is due

Depending on the repayment schedule (monthly, bimonthly, or quarterly), the borrower's first payment is due one, two, or three months from the date the grace period expires.

For convenience, a school may establish standard repayment dates for borrowers who are on quarterly repayment schedules. The first repayment date may be the first day of the calendar quarter after the grace period has expired. Four standard repayment dates would be used: January 1, April 1, July 1, and October 1. (See the chart below):

Standard dates for quarterly repayment

EXAMPLE OF PERKINS LOAN QUARTERLY BILLING
With Four Standard Repayment Dates

Borrower's Termination Date	Initial 9-Month Grace Period Ends	Installment Due
January 1	September 30	January 1
February 1	October 31	January 1
March 1	November 30	January 1
April 1	December 31	April 1
May 1	January 31	April 1
June 1	February 28	April 1
July 1	March 31	July 1
August 1	April 30	July 1
September 1	May 31	July 1
October 1	June 30	October 1
November 1	July 31	October 1
December 1	August 31	October 1

"Rolling" quarterly repayment schedule

Another type of repayment schedule is a "rolling" quarterly repayment schedule in which each borrower's first repayment is due exactly 3 months after the date his or her grace period expires. For example, if a borrower's first grace period expires on May 17, the first installment payment is due August 18. Another borrower's grace period expires May 18, so the first installment payment on that loan is due August 19. Repayment schedules must be adjusted (preferably on the first installment) so that the loan will be repaid within the normal 10-year period, or as prescribed in the terms of the promissory note.

Effect of deferment on repayment dates

For collection and bookkeeping purposes, it is preferable to have a fixed repayment date. Otherwise, if the borrower is entitled to a deferment, the school may have problems in computing the payments due. (See Section Four of this Chapter: Deferments.)

Once the payment date has been established, the borrower will owe principal and interest for any portion of a scheduled installment period not covered by a deferment. However, if the borrower is in deferment on a due date, any amounts owed are carried over and paid on the first due date the borrower is out of deferment.

Computing interest

Generally, interest is computed from the date payment is received rather than from the due date. However, there are exceptions. For example, if a grace period expires in the middle of a month, interest may be computed to the beginning of the next month. Also, if a past due payment is received before the next regularly scheduled payment, the interest may be computed according to the established payment schedule—no adjustments are necessary. Past due payments should be applied in the same order as that for repayments (see Section Three: Repayments).

PREPAYMENT

No penalty for prepayment

The borrower may prepay all or part of the loan at any time, without penalty.

Amounts repaid *during the academic year the loan was made* and *before the grace period has ended* are not considered prepayments, but *must be used to reduce the original loan amount.*

Reduction of original loan amount by repayment made during academic year loan was made and before grace period ends

A borrower has received a $1,000 Perkins Loan. His grandmother gives him $400 during the academic year in which the loan was made, and before the grace period has ended. The borrower applies the money toward his Perkins Loan. The principal advanced to the borrower becomes $600. This is not considered a prepayment, because the original loan amount has been reduced.

If the borrower repays *more than the amount due* for any repayment period after the initial grace period has ended, the school must use the excess to prepay principal, unless the borrower designates it as an advance payment of the next regular installment.

MINIMUM REPAYMENT RATES

Direct or Perkins Loan— $30 a month

A school may require the borrower of a Direct or Perkins Loan to pay at least $30 a month (or the equivalent in bimonthly or quarterly payments) if the monthly repayment over a 10-year repayment period is less than $30, and if the promissory note includes a $30 minimum monthly repayment provision. Students may need to make a higher payment, of course, to repay their debt by the end of 10 years.

Direct or Perkins Loans from more than one school

The borrower may have received Direct or Perkins Loans from more than one school. If only *one* school exercises the $30 option when the total monthly repayments are less than $30, that school receives the difference between $30 and the repayment owed to the second school.

Example: Suppose School A, which does not exercise the minimum repayment option, would receive $25 a month (the amount due under its established 10-year repayment plan). School B, which exercises the $30 option, would receive $5, the difference between $30 and the amount of principal and interest paid to School A.

If a borrower has obtained Direct or Perkins Loans from more than one school and *each* exercises the minimum repayment option, the $30 minimum repayment is divided among the schools in proportion to the total amount of principal each has advanced.

Defense Loan— $15 a month

The minimum repayment provisions of Defense Loans are the same as for Direct and Perkins Loans above, except that "$15" should be inserted for "$30." Again, students may need to make a higher payment to repay their debt by the end of 10 years.

Defense and Direct loans from one or more schools

If a borrower has received both Defense and Direct Loans from one or more schools and the borrower's *total* monthly repayment is *$30 or more,* no school may exercise a minimum repayment option, even if the Direct Loan repayment is less than $30 or the Defense Loan repayment is less than $15.

Example: A borrower is paying $20 a month on a Direct Loan received at School A and $10 a month on a Defense Loan received at School B. Neither school may exercise a minimum repayment option.

If the total monthly repayment is *less than $30*, a school may exercise the minimum repayment options applicable to the respective loans. However, the maximum monthly repayment may not exceed $30.

If the total monthly repayment is *less than $30* and the monthly repayment on the Defense Loan is less than $15 *and* the school exercises its minimum repayment option on the Defense Loan–no more than $15 may be attributed to the Defense Loan.

> **Example:** A borrower is paying $10 a month on a Defense Loan received at School A and $15 a month on a Direct Loan received at School B. School A could exercise the minimum monthly repayment provision for Defense Loans and collect $15 a month. The borrower's total monthly repayment would then be $30. However, School B could *not* exercise the minimum monthly repayment provision for Direct Loans (which would be $30), because the borrower's total monthly repayment would then exceed $30.

If the borrower owes funds to more than one school, he or she should contact any school that is exercising a minimum repayment option and provide the following information:

- the names of all other schools to which the borrower owes funds under the Perkins/NDSL Program,
- the approximate amount of the indebtedness to each school, and
- any information that would help identify the loans—for example, the loan number and the dates of loan advances.

The school the borrower contacts should then contact the other schools and negotiate the amount each should receive from the borrower.

Different interest rates from the same school

If a borrower has loans with different interest rates from the same school, and the borrower's total monthly repayment is *at least* $30 for all loans, the school may not exercise the minimum monthly payment on any loan. If the total monthly repayment would be *less than* $30, the school may exercise the $30 option, providing it has been included in the promissory note, and the school divides the repayment between accounts in proportion to the amount of principal advanced under each loan.

Different grace periods and deferments

As stated earlier, if a borrower has loans with different grace periods and deferments, the school must treat each note separately, and the borrower must pay the applicable minimum monthly payment for any loan that is not in a grace or deferment period.

Reduced payments due to hardship

A school may reduce a borrower's scheduled repayments for up to one year *at a time* if it determines that the borrower is unable to make the scheduled repayments due to hardship, and if the borrower is currently paying at least the $30 minimum monthly repayment. If the borrower's current monthly payment is less than $30, the school may not further reduce the borrower's monthly payment.

Low-income borrower

If the borrower is a low-income individual, the school may adjust his or her repayment schedule to reflect the borrower's family income or may extend the borrower's repayment period (see the discussion on page 6-24).

SECTION FOUR: DEFERMENTS

A borrower is entitled to have the repayment of a loan deferred under certain circumstances. Some deferment provisions are the same for Defense, Direct, and Perkins Loans, but other deferment provisions are different. Defense Loans and Direct Loans made before October 1, 1980 have different deferment provisions than Direct Loans made after that date. In the same manner, Perkins Loans have certain deferment provisions that differ from Direct Loans, due to changes in the Higher Education Amendments of 1986 and the Higher Education Technical Amendments of 1987.

Desert Shield/Storm deferment provisions

Higher Education Technical Amendments of 1991

Borrowers who served on active duty in connection with Desert Shield or Desert Storm—and are repaying Perkins, Direct, or Defense Loans—are eligible for certain waivers or modifications of the deferment provisions of their loans, as specified in the Higher Education Technical Amendments of 1991, P.L. 102-26. The waivers are discussed in the **Federal Register** Notice published September 16, 1991, as well as in the "Fact Sheet for Desert Storm/Desert Shield Borrowers," issued by ED in September 1991. The waivers and modifications are also summarized in the Introduction to Chapter 6, on pages 6-2 and 6-3.

DEFERMENT OF PERKINS LOANS

A borrower may defer repayment of a Perkins, Direct, or Defense Loan if he or she is enrolled at least half time as a regular student in an eligible institution of higher education or a comparable institution outside the U.S. aproved by the U.S. Department of Education for this purpose; interest will not accrue during the deferment. A "regular student" is one who is enrolled for the purpose of obtaining a degree or certificate. If the borrower is attending at least half time for a full academic year and intends to do so in the next academic year, he or she is entitled to deferment for 12 months.

A student enrolled at least half time in a *summer session* is also eligible to defer repayment of a Perkins or Direct Loan, provided the student is enrolled as a regular student seeking a degree or certificate.

At least half-time attendance

To receive a deferment based on at least half-time attendance, an "in-school" deferment, a borrower must be enrolled in an eligible institution (as defined in Chapter Three); however, it is not a requirement that the school participate in the Perkins Loan Program. If a school is no longer an eligible institution, the deferment ends on the date the school ceases to qualify. The borrower may also receive a deferment for attendance at a school outside the U.S. that is comparable to a U.S. school of higher education. Note that a school can be comparable even if it is not eligible to participate in SFA programs.

In-school deferment for service in Desert Shield/ Storm

A borrower who served in active duty in connection with Operation Desert Shield or Desert Storm, and whose Perkins, Direct, or Defense Loan is not in default, is considered to have been in an "in-school" status during the period of active duty service; a school is therefore required to suspend collection activity on the borrower's loan(s)—see pages 6-2 and 6-3 of the Introduction to Chapter 6.

✓ **Student Loan Reconciliation Amendments 1989**

The Student Loan Reconciliation Amendments of 1989 (P.L. 101-239) prohibit a borrower who is serving in a *medical internship or residency program* from receiving or continuing a deferment of repayment on a Perkins Loan *based on the borrower's full-time or half-time study* at a participating school. This provision became effective January 1, 1990 but does not apply to any portion of a deferment period that was completed prior to January 1, 1990. However, a borrower serving an eligible internship or residency is eligible for an *internship deferment* for up to 2 years (the internship deferment is discussed on the next page under "2-year internship deferment").

3-year deferments

A borrower of a Perkins Loan may defer repayment for up to 3 years and interest will not accrue while the borrower is—

- a member of the U.S. Army, Navy, Air Force, Marines, or Coast Guard,
- a member of the National Guard or the Reserves serving a period of full-time active duty in the Armed Forces,*
- an officer in the Commissioned Corps of the U.S. Public Health Service,
- on full-time active duty as a member of the National Oceanic and Atmospheric Administration Corps,

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* Reservists and members of the National Guard who borrowed a Stafford, Perkins, or Direct loan may receive a military deferment for the duration of their Desert Shield/Storm service, even if it exceeds the 3-year maximum military deferment normally allowed. This benefit is in effect until September 30, 1997. (Refer to "Dear Colleague" letter GEN-91-19, June 1991.)

- a Peace Corps volunteer,
- a volunteer under Title I—Part A of the Domestic Service Act of 1973 (ACTION programs),
- a full-time volunteer in service for a tax-exempt organization that the Department of Education has determined is comparable to Peace Corps or ACTION service (see the box below), or

A borrower is considered to be providing service comparable to Peace Corps or ACTION service if he or she meets the following five criteria:

— the borrower serves in an organization that is exempt from taxation under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1954;

— The borrower provides service to low-income persons and their communities to assist them in eliminating poverty and poverty-related human, social, and environmental conditions;

— The borrower's compensation does not exceed the compensation received by a full-time volunteer in the Peace Corps or in a program administered by the ACTION agency. Compensation includes an allowance for subsistence, necessary travel expenses, and stipends;

— The borrower, as part of his or her duties, does not give religious instruction, conduct worship service, engage in religious proselytizing, or engage in fundraising to support religious activities; and

— the borrower has agreed to serve on a full-time basis for a term of at least one year.

- temporarily totally disabled (see the definition in the box below) or unable to work because he or she must care for a *spouse or other dependent* who is so disabled.

"Temporarily totally disabled," with regard to the borrower, means the inability due to an injury or illness to attend an eligible school or to be gainfully employed during a reasonable period of recovery.

"Temporarily totally disabled," with regard to a disabled spouse or other dependent of a borrower, means requiring continuous nursing or other services from the borrower for a period of at least 3 months due to illness or injury.

A physician's statement is required to prove disability. The definition of dependent for the temporary total disability deferment is the same as that used in the application for Federal student aid—a child who receives more than half support or other person who lives with and receives more than half support from the borrower.

2-year internship deferment

A borrower of a Perkins Loan may defer repayment for up to 2 years and interest will not accrue while the borrower is serving an eligible internship. An "eligible internship" is one that requires the borrower to hold at least a bachelor's degree before beginning the internship program; in addition, it must meet the criteria of either (a) or (b) below:

(a) The completion of the internship must be required by a State licensing agency as a prerequisite for certification of the individual for professional practice or service. For this type of eligible internship, the borrower must provide the school with the following certifications:

- a statement from an official of the appropriate State licensing agency that the completion of the internship is required by a State licensing agency as a prerequisite for certification for professional practice or service,
- a statement from the organization where the borrower will be an intern, certifying that a bachelor's degree must be attained in order to be admitted in the program,
- a statement from the organization where the borrower will be an intern that the borrower has been accepted into its internship program, and
- the dates when the borrower is expected to begin and complete the program.

(b) The internship or residency program must lead to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility offering postgraduate training. For this type of eligible internship, the borrower must provide the school with a statement from an authorized official of the internship program certifying that:

- a bachelor's degree must be attained in order to be admitted in the program,

- the borrower has been accepted in to its internship program, and

- the internship or residency program leads to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility that offers postgraduate training.

A borrower of a Perkins Loan may also defer repayment and interest will not accrue during a period of—

1-year deferment

- up to 1 year if the borrower is a mother of a preschool age child, provided the mother is going to work (or going back to work) at a salary that is no more than $1.00 in excess of the minimum hourly wage, and

6-month deferment

- up to 6 months if the borrower is pregnant, or if he or she is taking care of a newborn or newly adopted child. (This deferment is called "parental leave.") The borrower must be unemployed and not attending school and must apply for deferment within 6 months of leaving school or dropping below half-time status.

Hardship deferment

A borrower may defer repayment for hardship (for example, if the borrower is facing a prolonged period of illness or unemployment). However, interest will continue to accrue during the deferment. Borrowers who are or were serving on active duty in Desert Shield/Storm may, in some cases, be eligible for an administrative hardship deferment (refer to "Dear Colleague" letter GEN-91-11, February 1991).

Post-deferment grace period

A borrower is entitled to a six-month grace period after each of the deferments that apply to Perkins Loans (a "post-deferment" grace period) except after the deferment for hardship. Neither the deferment nor the grace period is included in determining the 10-year repayment period.

DEFERMENT OF DIRECT LOANS MADE ON OR AFTER OCTOBER 1, 1980

The following deferment provisions are applicable to Direct Loans made on or after October 1, 1980:

At least half-time attendance

A borrower may defer repayment of a Perkins, Direct, or Defense Loan if he or she is enrolled at least half time as a regular student in an eligible institution of higher education or a comparable institution outside the U.S. aproved by the U.S. Department of Education for this purpose; interest will not accrue during the deferment. If the borrower is attending at least half time for a full academic year and intends to do so in the next academic year, he or she is entitled to deferment for 12 months. (See the discussion of the "in-school" deferment under "Deferment of Perkins Loans" on page 6-34.)

3-year deferments

A borrower may defer repayment for up to three years and interest will not accrue while the borrower is—

- a member of the U.S. Army, Navy, Air Force, Marines, or Coast Guard;
- a member of the National Guard or the Reserves serving a period of full-time active duty in the Armed Forces (see footnote, page 6-34);
- an officer in the Commissioned Corps of the U.S. Public Health Service;
- a Peace Corps volunteer;
- a volunteer under Title I—Part A of the Domestic Service Act of 1973 (ACTION programs);
- a full-time volunteer in service for a tax-exempt organization the Department of Education has determined is comparable to Peace Corps or ACTION service (see the box on page 6-35 for a description of comparable service); or
- temporarily totally disabled or unable to work because he or she must care for a *spouse* who is so disabled. A physician's statement is required to prove disability (see the box on page 6-35 for a definition of temporary total disability).

2-year deferments

A borrower of a Direct Loan made on or after October 1, 1980 may defer repayment for up to two years and interest will not accrue while the borrower is serving an eligible internship. An "eligible internship" is one that requires the borrower to hold at least a bachelor's degree before beginning the internship program; in addition, the completion of the internship must be required by the State licensing agency as a prerequisite for certification of the individual for professional practice or service. The borrower must provide the school with the following certifications:

- a statement from an official of the appropriate State licensing agency that the completion of the internship is required by the State licensing agency as a prerequisite of certifying for professional practice or service,
- a statement from the organization where the borrower will be an intern, certifying that a bachelor's degree must be attained in order to be admitted in the program,
- a statement from the organization where the borrower will be an intern, that the borrower has been accepted into its internship program, and
- the dates when the borrower is expected to begin and complete the program.

Hardship deferment

A borrower may defer repayment for hardship (for example, if the borrower is facing a prolonged period of illness or unemployment). However, interest will continue to accrue during the deferment. Borrowers who are or were serving on active duty in Desert Shield/Storm may, in some cases, be eligible for an administrative hardship deferment (refer to "Dear Colleague" letter GEN-91-11, February 1991).

Post-deferment grace period

For all Direct Loans made on or after October 1, 1980, a borrower is also entitled to a 6-month grace period after each of the deferments that apply to those loans (a "post-deferment" grace period) except after the deferment for hardship. Neither the deferment nor the grace period is included in determining the 10-year repayment period.

DEFERMENT OF DIRECT LOANS MADE BEFORE OCTOBER 1, 1980

The following deferment provisions are applicable to Direct Loans made before October 1, 1980:

At least half-time attendance

A borrower may defer repayment of a Perkins, Direct, or Defense Loan if he or she is enrolled at least half time as a regular student in an eligible institution of higher education or a comparable institution outside the U.S. aproved by the U.S. Department of Education for this purpose; interest will not accrue during the deferment. If the borrower is attending at least half time for a full academic year and intends to do so in the next academic year, he or she is entitled to deferment for 12 months. (See the discussion of this deferment under "Deferment of Perkins Loans" on page 6-34.)

3-year deferments

A borrower may defer repayment for up to three years and interest will not accrue while the borrower is—

- a member of the U.S. Army, Navy, Air Force, Marines, or Coast Guard;
- a member of the National Guard or the Reserves serving a period of full-time active duty in the Armed Forces;
- a Peace Corps volunteer; or
- a volunteer under Title I—Part A of the Domestic Service Act of 1973 (ACTION programs).

Hardship deferment

A borrower may defer repayment for hardship (for example, if the borrower is facing a prolonged period of illness or unemployment). However, interest will continue to accrue during the deferment. Borrowers who are or were serving on active duty in Desert Shield/Storm may, in some cases, be eligible for an administrative hardship deferments (see above).

DEFERMENT OF DEFENSE LOANS

Defense Loan deferment for less-than-half-time attendance

Borrowers of Defense Loans (loans made before July 1, 1972) are eligible for only the deferments that are applicable to Direct Loans made before October 1, 1980 plus one additional deferment that applies to *Defense Loans only*: a school may allow a student to defer repayment for up to three years while attending an institution of higher education *less than half time*, if the student is taking courses creditable toward a degree. However, interest will continue to accrue during a deferment for less than half-time study.

DEFERMENT AND DEFAULT

Deferment for defaulted borrower

Historically, a borrower in default was no longer entitled to a deferment even if he or she would otherwise qualify. It is still true that a borrower in default is not *entitled* to a deferment, but under the December 1, 1987 campus-based regulations, a school may grant the borrower one if he or she signs a new repayment agreement. *Schools are not required to grant deferments on loans in default*; however, if they do, they are expected to calculate past-due, accrued interest. If schools believe this is unduly burdensome, they may deny deferments.

Deferment when loan is accelerated

Once the borrower misses a scheduled payment, he or she is in default for purposes of determining the borrower's status for new Federal student aid. However, if the borrower enters into a new written repayment agreement, the school may grant a deferment *even if the school has accelerated the loan.* However, the school would have to de-accelerate the loan. The Department encourages schools to require the borrower to repay immediately some or all of the past-due amounts as a condition of the new agreement—thus "curing" the default. "Past-due amounts" are those scheduled to be repaid before the date the school determined that grounds for a deferment existed. Past-due amounts include late charges, penalty charges, and collection costs.

The new policy to grant deferments on defaulted loans applies to *all* requests for deferment received after the effective date of the December 1, 1987 campus-based regulations (the effective date is February 3, 1988), *regardless of the date the loan was made.* The change has no effect on the requirement that the borrower file for deferment on time and provide satisfactory documentation that he or she qualifies for the deferment.

DEFERMENT VS. STUDENT STATUS

At times a borrower may neglect to notify a school that he or she has continued studies at least half time at another school. As the school would not have this information, the financial aid administrator would assume that the student's repayment period had started, and might demand payment from the borrower. In such a case, borrowers often request relief in terms of a "deferment," rather than on the basis of their student status. Actually, as the borrower was still enrolled at least half time, the term "deferment" would not be appropriate, as the repayment period had not started. The borrower may submit proof at any time—even after a loan has been accelerated—that the repayment period should have begun later than the date originally calculated. *The school must recalculate that date if it receives this proof.* The school must also deduct from the loan balance any interest accrued and any late charges added before the date the repayment period began. These requirements were included in Section 674.37(c) of the December 1, 1987 regulations, which became effective February 3, 1988.

Note that the borrower remains responsible for payments that would have been due in any event, and the school is not obligated to grant a deferment for any past-due payments.

DEFERMENT PROCEDURES

Borrower obtains deferment form from school

Borrowers must apply for a deferment by obtaining a form from the business or student loan office of the school that made them the loan (or from the school's billing service, if it uses one). The form must be submitted to the school before the first repayment is due, along with whatever documentation the school requires. (The Department of Education does *not* approve or supply deferment forms.) The borrower must file a form at least once a year for as long as the deferment can be claimed. The borrower must immediately report any change in deferment status to the lending institution.

DEFERMENT OF REPAYMENT OF PERKINS, DIRECT, AND DEFENSE LOANS

MAXIMUM DEFERMENT STUDENT IS ELIGIBLE TO RECEIVE:	PERKINS LOAN	DIRECT LOAN after 10/1/80	DIRECT LOAN before 10/1/80	DEFENSE LOAN
1. While enrolled at least half time[A]	12 months*	12 months*	12 months	12 months
2. While serving a period of full-time active duty in the U.S. Armed Services (U.S. Army, Navy, Air Force, Marines, or Coast Guard)[B]	3 years*	3 years*	3 years	3 years
3. While a Peace Corps volunteer or ACTION volunteer under Title I-Part A of the Domestic Volunteer Act of 1973	3 years*	3 years*	3 years	3 years
4. While a full-time volunteer for a tax-exempt organization in service comparable to Peace Corps or ACTION	3 years*	3 years*	No	No
5. While an officer in the Commissioned Corps of the U.S. Public Health Service	3 years*	3 years*	No	No
6. While temporarily totally disabled or unable to attend school or work because the borrower must care for a temporarily totally disabled spouse/dependent	3 years[C]*	3 years[D]*	No	No
7. While on full-time active duty as a member of the National Oceanic and Atmospheric Administration Corps	3 years*	No	No	No
8. While serving in an eligible medical internship or residency program	2 years[E]*	2 years[F]*	No	No
9. While borrower is a mother of preschool age children and is going to work or back to work at a salary no more than $1.00 over the minimum hourly wage.	1 year*	No	No	No
10. While pregnant, caring for a newborn, or caring for a child immediately after adoption	6 months[G]*	No	No	No
11. During a period of hardship to the borrower, as determined by the school[H]	Yes	Yes	Yes	Yes
12. While enrolled less than half time	No	No	No	3 years

A Reservists and members of the National Guard serving on active duty in Desert Shield/Storm are considered to be in an "in-school" deferment during that service. A borrower who is a medical intern or resident is not eligible for an "in-school" deferment, but is eligible for the regular internship or residency deferment shown in #8.

B Reservists and members of the National Guard may receive a military deferment of a Perkins Loan, Direct Loan, or Defense Loan for the duration of their Desert Shield/Storm service, even if it exceeds the 3-year maximum.

C Spouse or other dependent

D Spouse only

E The internship program must require borrower to have bachelor's degree before being admitted and also must either (1) be required by a State licensing agency to begin professional practice, or (2) must lead to a postgraduate degree or certificate from a postsecondary school, hospital, or healthcare facility.

F The internship program must require borrower to have a bachelor's degree before being admitted and must be required by a State licensing agency to begin professional practice or service.

G The borrower must not be attending an eligible postsecondary school or be gainfully employed, and the deferment must begin no more than 6 months after the borrower ceased to be enrolled at least half time at an eligible institution.

H Principal and interest may be deferred, but interest continues to accrue.

* These deferments are followed by a 6-month grace period before repayment begins; during the grace period, principal need not be paid, and interest does not accrue.

SECTION FIVE: CANCELLATION

A borrower may have all or part of his or her loan (including interest) cancelled for service as a teacher, or for service in a Head Start program, in the Peace Corps or VISTA, or in the military. Cancellation is also granted in case of the borrower's death, total and permanent disability, or—in some cases—bankruptcy.

The Crime Control Act of 1990 (P.L. 101-647) added a new cancellation provision for full-time law enforcement officers and corrections officers who borrow under the Perkins Loan Program on or after November 29, 1990 (see page 6-45).

U.S. Army Loan Repayment Program

Although it is not a cancellation, it's useful to know that the U.S. Army offers a loan *repayment* program as an enlistment incentive. If a Perkins/NDSL (or Stafford Loan) borrower serves as an enlisted person in the U.S. Army, in the Army Reserves, or in the Army National Guard, the Department of Defense will repay a portion of the loan. For more information, the student should contact his or her local Army recruiting office. This is a recruitment program and does not pertain to an individual's prior service. (At the time this *Handbook* was written, the Army was the only branch of the Armed Forces offering this repayment program.)

CANCELLATION PROCEDURES COMMON TO DEFENSE, DIRECT, AND PERKINS LOANS

Although cancellation provisions vary, depending on whether the borrower has a Defense, Direct, or Perkins Loan, the following procedures apply to any loan:

- The borrower must apply for cancellation for teaching, military, volunteer service, or service as a law enforcement or correction officer by obtaining the appropriate cancellation form from the business or student loan office of the school that made the loan (or from the school's billing service, if it uses one). The Department of

Education does not approve or supply cancellation forms. The form must be submitted to the school on time. The borrower must provide any documentation the school requests to show that he or she qualifies for cancellation. (For appropriate documentation, see the individual cancellation category in this section.)

- It is the school's responsibility to determine, based on that documentation, whether borrowers are entitled to have any portion of their loans cancelled. This responsibility cannot be delegated.
- No portion of any loan may be cancelled for services the borrower performed before the date the loan was disbursed, or during the same period he or she received the loan.
- Regardless of the repayment status of a loan, the school that was the lender must cancel the loan upon receipt of proof of the borrower's death or upon the school's approval of a borrower's request for cancellation because of a permanent and total disability.
- For each year a borrower receives partial loan cancellation for service in the military or for service as a volunteer under the Domestic Volunteer Service Act (ACTION programs), he or she is considered to have also used one year of deferment for military/ACTION service.
- A borrower whose defaulted loan has been accelerated can receive a cancellation for services performed *before* the date of acceleration, but *cannot* receive a cancellation for services performed *after* the loan has been accelerated.
- No repayment made during a period for which a borrower qualified for a cancellation may be refunded, unless the borrower made the payment because of institutional error. To reduce the chance of error, a school should keep the borrower informed of any new cancellation benefits.

CANCELLATION OF A PERKINS OR DIRECT LOAN

Teaching in low-income schools

A borrower is entitled to cancellation of up to *100 percent* of a Perkins Loan or National Direct Student Loan for full-time teaching in a designated public or nonprofit elementary or secondary school serving students from *low-income* families (see page 6-47); the cancellation rate per academic year of teaching is:

- 15 percent of the original principal loan amount—plus the interest that has accrued during the year—for each of the first and second years,

- 20 percent of the original principal loan amount—plus the interest that has accrued during the year—for each of the third and fourth years, and
- 30 percent of the original principal loan amount—plus the interest that has accrued during the year—for the fifth year;

Teaching disabled children

A borrower is entitled to cancellation of up to *100 percent* of a Perkins Loan or National Direct Student Loan for full-time teaching of *disabled students* in a public or nonprofit elementary or secondary school. The majority of the students the borrower teaches must be disabled children (refer to page 6-49). The cancellation rate per academic year of teaching is:

- 15 percent of the original principal loan amount—plus the interest that has accrued during the year—for each of the first and second years,
- 20 percent of the original principal loan amount—plus the interest that has accrued during the year—for each of the third and fourth years, and
- 30 percent of the original principal loan amount—plus the interest that has accrued during the year—for the fifth year;

New cancellation for law enforcement officers

A borrower is entitled to cancellation of up to *100 percent* of a Perkins Loan or Direct Loan made on or after November 29, 1990 for full-time service as a qualifying law enforcement or corrections officer. A loan is considered made on the date the student signs for an advance of funds on the promissory note. However, no portion of any loan may be cancelled for services the borrower performed before the loan was disbursed or during the same period he or she received the loan. "Dear Colleague" letter CB-91-6, issued in April 1991, includes information about the new cancellation, as well as a promissory note Addendum containing the new cancellation provision. A borrower must sign and date both the original promissory note and the Addendum. The rates of cancellation for each year of service are the same as teachers receive:

- 15 percent of the principal—plus the interest that has accrued during the year—for each of the first and second years,
- 20 percent of the principal—plus the interest that has accrued during the year—for each of the third and fourth years, and
- 30 percent of the principal—plus the interest that has accrued during the year—for the fifth year.

Service in Head Start

A borrower is also entitled to cancellation of up to *100 percent* of a Perkins or Direct Loan for full-time service as a full-time staff member in a pre-school program carried out under the Head Start Act (Subchapter B, Chapter 8 of Title VI of Pub. L. 97-35, the Budget Reconciliation Act of 1981, as amended); the cancellation rate per year of service is 15 percent of the original principal loan amount—plus the interest that has accrued during the year.

Military service/ Persian Gulf

A borrower is also entitled to cancellation of up to *50 percent* of a Perkins or Direct Loan for service in the U.S. Armed Forces in an *area of hostilities* or an *area of imminent danger* that qualifies for special pay under Section 310 of Title 37 of the U.S. Code. On September 19, 1990, the Persian Gulf area was designated as an area of imminent danger by the Secretary of Defense. The cancellation rate for every complete year of qualifying service is 12½ percent of the original principal loan amount— plus the interest that has accrued during the year. (Additional information about military cancellations is on page 6-50.)

Perkins only—service in Peace Corps or ACTION programs

For *Perkins Loans only*, a borrower is entitled to cancel up to *70 percent* of the loan for service as a Peace Corps volunteer or volunteer under the Domestic Volunteer Service Act (ACTION programs); an authorized official of the Peace Corps or ACTION program must sign the borrower's cancellation form, certifying the borrower's service. The cancellation rate per year of service is:

- 15 percent of the original principal loan amount—plus the interest that has accrued during the year—for each of the first and second 12-month periods of service, and

- 20 percent of the original principal loan amount—plus the interest that has accrued during the year—for each of the third and fourth 12-month periods of service.

Death/ disability

Regardless of the repayment status of a loan, the school that was the lender must cancel the loan upon receipt of proof of the borrower's death or upon the school's approval of a borrower's request for cancellation because of a permanent and total disability. A determination of permanent and total disability must be based on medical evidence certified by a physician (a medical doctor or doctor of osteopathy, but not a doctor of naturopathic medicine).

CANCELLATION OF A DEFENSE LOAN

The cancellation provisions that apply to National *Defense* Student Loans (made before July 1, 1972) for teaching and military service are somewhat different from those that apply to Perkins and Direct Loans. A borrower is entitled to cancellation of up to *100 percent* of a National Defense Student Loan for—

Teaching in low-income schools

- full-time teaching in a designated public or other nonprofit elementary or secondary school serving students from *low-income* families (see page 6-49). Cancellation is available only for teaching service beginning with the *1966-67* academic year. The cancellation rate for each academic year of teaching is 15 percent of the original principal loan amount—plus the interest that has accrued during the year.

Teaching disabled children

- full-time teaching of *disabled students* in a public or nonprofit elementary or secondary school. The majority of the students the borrower teaches must be disabled children (refer to page 6-49). Cancellation is available only for teaching service beginning with the *1967-68* academic year. The cancellation rate for each academic year of teaching is 15 percent of the original principal loan amount—plus the interest that has accrued during the year.

In addition, a borrower is entitled to cancellation of up to *50 percent* of a National Defense Student Loan for—

Full-time teaching

- full-time teaching in a public or other nonprofit elementary or secondary school, institution of higher education, or overseas Department of Defense elementary or secondary school (the cancellation rate per academic year of teaching is 10 percent of the original principal loan amount—plus the interest that has accrued during the year), or

Military service

- full-time active service in the U.S. Armed Forces (the cancellation rate per year of consecutive service is 12½ percent of the original principal loan amount—plus the interest that has accrued during the year). To be eligible for this cancellation, the loan must have been made after April 13, 1970, and the military service must have occurred after June 30, 1970. More information about military cancellations is on page 6-50.

Death/ disability

Regardless of the repayment status of a loan, the school that was the lender must cancel the loan upon receipt of proof of the borrower's death or upon the school's approval of a borrower's request for cancellation because of a permanent and total disability .

CRITERIA BORROWER MUST MEET FOR TEACHER CANCELLATION

Cancellation is based on position description

Teacher cancellation is based on the duties presented in an official position description, not on the position title.

There is no provision for cancelling Direct or Perkins Loans for teaching in postsecondary schools, or for service in elementary or secondary schools, *other than* teaching in schools serving low-income families or teaching the disabled.

Definition of teacher

A teacher is a person who provides:

- direct classroom teaching,
- classroom-type teaching in a non-classroom setting, or
- educational services to students directly related to classroom teaching such as school librarians or school guidance counselor.

A supervisor, administrator, researcher, or curriculum specialist is not a teacher unless he or she primarily provides direct and personal educational services to students.

A person who provides one of the services listed below does not qualify as a teacher unless that person is licensed, certified, or registered by the appropriate State education agency for the area in which he or she is providing related special educational services, and the services provided are part of the educational curriculum for disabled children:

- speech pathology and audiology,
- psychological and counseling services
- physical or occupational therapy, or
- recreational therapy.

To receive a cancellation for teaching, the borrower must be teaching in a *public or other nonprofit elementary or secondary school system* and must be *directly employed* by the school system. If the borrower teaches both children and adults, the majority of students must be disabled children for the borrower to qualify for cancellation. The cancellation form the borrower files must contain a signature from an official in the school system, certifying the borrower's service.

Teaching students from low-income families

Low-income school selection criteria differ in each loan program

A cancellation based on teaching in a school serving students from *low-income* families may be granted only if the school where the borrower taught is listed in the "Directory of Designated Low-Income Schools" published each year by the Department of Education. The school must be on the Department's list *during the academic year in which the borrower taught.* The Department compiles this list after consulting with each State's educational agency and sends a copy of the list to all schools that participate in the Perkins Program. Because selection criteria for designating low-income schools are different in the Defense, Direct, and Perkins Loan programs, the same school may qualify under one program but not another for the same academic year. (For more information on the criteria used to designate a school as one serving low-income families, see Sections 674.53(a) and 674.54(b) of the December 1, 1987 campus-based regulations.) Information concerning specific schools listed in the Directory may be obtained from:

Ronald W. Allen
Campus-Based Programs Branch,
Division of Program Operations and Systems
Office of Student Financial Assistance
U.S. Department of Education
400 Maryland Avenue, SW, (Room 4621, ROB-3)
Washington, DC 20202-5453
Telephone: (202) 708-6730

Teaching disabled children

To receive a cancellation based on teaching disabled children, the borrower must be teaching full time for a full academic year* and must be teaching children, the majority of whom are disabled. Disabled children include those who are mentally retarded, hard of hearing, deaf, speech and language impaired, visually disabled, seriously emotionally disturbed, orthopedically impaired, autistic, have traumatic brain injury or specific learning disabilities, or are otherwise health-impaired children, who require special education and related services because of their disability.

Cancellation for a combination of teaching

A borrower who was teaching simultaneously in two or more schools may request a cancellation based on teaching full time. The postsecondary school that made the loan may grant the cancellation if an official at one of the schools where the borrower taught certifies that the borrower taught full time for a full academic year. *A school may refuse cancellation for simultaneous teaching in two or more schools if it cannot easily be determined that the teaching was full time.*

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* An "academic year or its equivalent" for elementary and secondary schools and special education is defined as one complete school year or two half years from different school years, excluding summer sessions, that are complete and consecutive and generally fall within a 12-month period.

A borrower who cannot complete the academic year because of illness or pregnancy can still qualify for cancellation if he or she has completed the first half of the academic year and has begun teaching the second half. The borrower's employer must consider the borrower to have fulfilled his or her contract for the academic year.

All elementary and secondary schools operated by the Bureau of Indian Affairs (BIA) are considered to qualify as schools serving low-income families for the purpose of teacher cancellations of Defense, Direct, and Perkins Loans. Elementary and secondary schools operated on reservations by Indian tribal groups under contract with the BIA are also considered to qualify for this purpose.

CRITERIA BORROWER MUST MEET FOR MILITARY CANCELLATION

The borrower must be serving a period of full-time active duty in the U.S. Armed Forces. "Armed Forces" means the U.S. Army, Navy, Air Force, Marine Corps, or Coast Guard. A member of the National Guard or the Reserves serving a period of full-time active duty in the U.S. Armed Forces is also eligible to receive a military deferment. For a Perkins or Direct Loan cancellation, the service in the U.S. Armed Forces must be in an *area of hostilities* or an *area of imminent danger* that qualifies for special pay under Section 310 of Title 37 of the U.S. Code. On September 19, 1990, the Persian Gulf area was designated as an area of imminent danger by the Secretary of Defense. For a Defense Loan cancellation, the service does not have to be in an area of hostilities or area of imminent danger. The borrower's Commanding Officer must certify when the borrower served. The cancellation rate of 12½ percent of the loan is for each *complete* year of service; service for less than a complete year (including any fraction of a year beyond a complete year) does not qualify.

CRITERIA BORROWER MUST MEET FOR HEAD START CANCELLATION

A "full-time staff member" is someone who is regularly employed in a full-time professional capacity to carry out the educational part of a Head Start program. The program must operate for a full academic year, or its equivalent, and the borrower's salary may not be more than that of a comparable employee working in the local educational agency. An authorized official of the Head Start Program must sign the borrower's cancellation form, certifying the borrower's service.

CRITERIA BORROWER MUST MEET FOR LAW ENFORCEMENT OR CORRECTIONS OFFICER CANCELLATION

In order to establish the eligibility of a borrower for the new cancellation provision, the school must determine that (a) the borrower's employing agency is eligible and that (b) the borrower's position is essential to the agency's primary mission (see below).

(a) A local, State or Federal agency is an eligible employing agency if it is public-funded and its activities pertain to crime prevention, control, or reduction or to the enforcement of the criminal law. Such activities include, but are not limited to, police efforts to prevent, control, or reduce crime or to apprehend criminals; activities of courts having criminal jurisdiction and related agencies; activities of corrections, probation, or parole authorities; and problems relating to the prevention, control, or reduction of juvenile delinquency or narcotic addiction. Agencies that are primarily responsible for enforcement of civil, regulatory, or administrative laws are ineligible.

(b) In order for the borrower's position to be considered essential to the agency's primary mission, he or she must be a full-time employee of an eligible agency and a sworn officer or person whose principal responsibilities are unique to the criminal justice system and are essential in the performance of the agency's primary mission. The agency must be able to document the employee's functions.

NOTE: Persons whose official responsibilities are supportive, such as those that involve typing, filing, accounting, office procedures, purchasing, stock control, food service, or building, equipment or grounds maintenance are not eligible for the new loan cancellation regardless of where these functions are performed.

CRITERIA BORROWER MUST MEET FOR DISABILITY CANCELLATION

Any Defense, Direct, or Perkins Loan will be cancelled if the borrower dies or becomes permanently and totally disabled after receiving the loan. Permanent and total disability is the inability to work and earn money because of an impairment that is expected to continue indefinitely or to result in death.

If a borrower becomes permanently and totally disabled, the school must decide whether to cancel the loan based on medical evidence (certified by a physician) that the borrower or his or her representative must furnish. This evidence must include statements from all physicians, hospitals, or agencies concerned with the case. The Department of Education does not approve or supply cancellation forms. In the case of a borrower's death, the school must receive a death certificate or other proof as required under State law.

CRITERIA FOR RECEIVING A BANKRUPTCY CANCELLATION

A Defense, Direct, or Perkins Loan will be written off for bankruptcy if the school receives an official notice of discharge from a bankruptcy court (unless the school is required to oppose the discharge—for more information, see "Bankruptcy" in Section Eight of this Chapter).

POSTPONING REPAYMENTS

12-month postponement for loans qualifying for cancellation

A school may postpone loan repayments for a 12-month period if the borrower will be providing services that qualify for loan cancellation. The borrower must obtain a postponement form from the lending institution and have it signed by a responsible official of the Peace Corps or VISTA, or of the military agency or school that will employ the borrower. The employer must describe the borrower's duties, list the period of employment, and state whether the job will be full- or part-time.

If a borrower has received more than one type of loan (Defense and Direct), but is not eligible for cancellation benefits on both types, the school may postpone only the repayments on the loan(s) for which cancellation will be available.

A school may not exercise the minimum monthly repayment provisions on a note when the borrower has received a partial cancellation for the period covered by a postponement. (If the school was originally exercising the minimum repayment option, it must cease doing so.) If a borrower has received more than one loan, but not all can be cancelled, the amount due on the uncancelled loan(s) is the amount the student would normally pay.

REIMBURSING AMOUNTS CANCELLED

Direct/ Perkins Loans

For Direct and Perkins Loans, the Department will reimburse each school every award year for the principal and interest cancelled from its Perkins Loan Fund for teaching, Head Start, military, law enforcement, corrections officer, and volunteer service. The school must deposit this amount in its Fund.

Defense Loans

For Defense Loans, the Department of Education will reimburse each school every award year for its share of the principal and interest cancelled for teaching or for military service. Reimbursement is determined as follows:

$$\boxed{\text{Total cancelled principal and interest}} \times \frac{I}{I + F} = \boxed{\text{School's share of cancelled principal and interest}}$$

"I" is the school's capital contribution to the Perkins Fund;
"F" is the Federal Capital Contribution to the Fund.

Reimbursements for amounts cancelled on Defense Loans represent institutional funds and may be used at the school's discretion. The Department of Education will not reimburse schools for cancellations due to death, disability, or bankruptcy.

CANCELLATION OF PERKINS, DIRECT, AND DEFENSE LOANS

STUDENT IS ELIGIBLE FOR CANCELLATION FOR:	PERKINS LOAN	DIRECT LOAN	DEFENSE LOAN
1. Full-time teaching in a designated elementary or secondary school serving students from low-income families	Up to 100%[A]	Up to 100%[A]	Up to 100%[B]
2. Full-time teaching of handicapped students in a public or nonprofit elementary or secondary school	Up to 100%[A]	Up to 100%[A]	Up to 100%[C]
3. Full-time teaching in a public or other nonprofit elementary or secondary school, institution of higher education, or overseas Department of Defense elementary or secondary school	No	No	Up to 50%[D]
4. Full-time law enforcement or corrections officers whose loans were made on or after November 29, 1990.	Up to 100%[E]	Up to 100%[A]	No
5. Full-time service as a staff member in a Head Start Program	Up to 100%[F]	Up to 100%[F]	No
6. Service in the U.S. Armed Forces	Up to 50% in area of hostilities or imminent danger[G]	Up to 50% in area of hostilities or imminent danger[G]	Up to 50%[H]
7. Service as a Peace Corps or VISTA volunteer	Up to 70%[I]	No	No
8. Total and permanent disability or death of the borrower	100%	100%	100%
9. Bankruptcy	In some cases[J]	In some cases[J]	In some cases[J]

A. 15% cancellation of the original principal loan amount per academic year for the first and second years, 20% for the third and fourth years, and 30% for the fifth year.

B. 15% cancellation of the original principal loan amount per academic year plus interest that accrued during the year. Cancellation is available only for teaching service beginning with the 1966-67 academic year.

C. 15% cancellation of the original principal loan amount per academic year plus interest that accrued during the year. Cancellation is available only for teaching service beginning with the 1967-68 academic year.

D. 10% cancellation per academic year of teaching.

E. 15% cancellation of the original principal loan amount per year of full-time service to local, State, or Federal law enforcement agencies for the first and second years, 20 percent for the third and fourth years, and 30 percent for the fifth year.

F. 15% cancellation per year of full-time service.

G. 12½% cancellation per year. The Persian Gulf area was declared an area of imminent danger by the Secretary of Defense on September 19, 1990. A member of the National Guard or the Reserves serving a period of full-time active duty in the U.S. Armed Forces is also eligible for a military deferment.

H. 12½% cancellation per year of consecutive service. The loan must have been made after April 13, 1970, and the military service must have occurred after June 30, 1970.

I. 15% cancellation per year during the first and second 12-month periods of service, and 20% per year for each of the third and fourth 12-month period of service.

J. The loan is cancelled only if the school receives an official notice of discharge from a bankruptcy court, and if the school is not required to oppose the discharge (see page 6-77 for more information on bankruptcy).

SECTION SIX:
DUE DILIGENCE—LOAN COLLECTION

Due diligence refers to those steps schools must take to collect National Defense, Direct, and Perkins Loans—including billing the borrower, sending overdue notices when necessary, and conducting address searches if the borrower cannot be located. If billing procedures fail to get the borrower into repayment, schools must proceed to the second—and more intensive—stage of collection, which includes reporting the account to credit bureaus and possibly hiring a collection firm. Finally, in many cases, schools may have to litigate.

Due diligence comprises all these procedures, but it can also be as basic as keeping the borrower informed of all changes in the Perkins Loan Program that affect his or her rights and responsibilities, and responding promptly to the borrower's inquiries.

Keep borrower information current

Keeping current information on a borrower makes it easier for the school to know when repayment must begin and where to send billing notices. The various offices at the school—the admissions, business, alumni, placement, financial aid, and registrar's offices, and others, as necessary—must provide the information they have available about the borrower to those offices responsible for billing and collecting loans to assist them in determining the following information about the borrower:

- enrollment status;
- expected graduation or termination date;
- the date the borrower officially withdraws, drops below half-time enrollment, or is expelled; and
- current name, address, telephone number, and Social Security number.

EXIT INTERVIEW

Contact with the borrower becomes even more important just before he or she leaves school, when the school must hold an exit interview, explaining the borrower's responsibility for repaying the loan and stating when the first payment will be due and whether payments are to be made monthly, bimonthly, or quarterly. If individual interviews are not possible, group interviews are acceptable.

Must provide certain information

During the interview, borrowers must be told the terms of the loan, the amount of the outstanding balance, and their obligation to repay according to the repayment schedule. The school must also make them aware of the consequences of default, including the possibility that their account may be referred to a collection firm, that the default may be reported to a credit bureau, and that legal action may be taken to collect the amount owed.

Borrower rights and responsibilities

Borrowers must also be told their rights and responsibilities under the loan(s), including—

- their responsibility to inform the school immediately of any change in name, address, telephone number, or Social Security number;
- their right to defer, postpone, or cancel repayment, and the procedures for filing for each (see Sections Four and Five of this Chapter for more information); and
- their responsibility to contact the school before the due date of any payment they cannot make.

Additional information

The school must provide the following additional information during the exit interview and must include it either in the borrower's promissory note or in some other written statement the school gives the borrower:

- the name and address of the school to which the debt is owed and the name and address of the official or servicing agent where communications should be sent;
- the name and address of the party where payments should be sent;
- the estimated amount the borrower owes on the date the repayment period is scheduled to begin, as well as the amount of the total debt (principal and interest);
- the interest rate, as well as the projected total interest charges the borrower will pay;

- a discussion of the repayment schedule—including the date the first installment is due, and the number, amount, and frequency of required payments;
- any special options for loan consolidation or other refinancing;
- a statement that the borrower may prepay all or part of the loan without penalty;
- a discussion of any fees that will be charged the borrower for not making payments on time; and
- a description of any charges associated with default, such as liability for loan collection costs reasonably incurred by the school or the Department.

Added exit interview requirements

Two recent laws affect information to be provided or obtained during the exit interview. Although institutions in the past have been required to provide information during the exit interview on loan deferments and cancellations, P.L. 101-610, enacted on November 16, 1990, requires a school to provide detailed information on the terms and conditions under which students may obtain partial cancellation of a Perkins Loan or a deferment of a Perkins/Direct Loan for volunteer service. P.L. 102-164, enacted November 15, 1991, requires a school to collect the following additional information from the borrower during the exit interview: the borrower's expected permanent address, the name and address of the borrower's expected employer, and the address of the borrower's next of kin.

Borrower must sign repayment schedule

At the time of the exit interview, the borrower must sign the repayment schedule, and the school must give the borrower a copy of the signed schedule and of the signed promissory note. As previously noted, the school must keep the original signed promissory note and repayment schedule in a locked, fireproof container until the loan is repaid or until the originals are needed in order to enforce collection of the loan. If the originals are released to enforce repayment, the school must keep certified true copies of the documents released.

Mailing exit interview materials

If the school discovers that a borrower has left without having had an exit interview, the school must either contact the borrower and personally give him or her the information listed above, or mail it. The school must also provide the borrower a copy of the promissory note and two copies of the repayment schedule, one of which the borrower must sign and return to the school.

CONTACT DURING INITIAL AND POST-DEFERMENT GRACE PERIODS

Three contacts in 9-month grace period

Two contacts in 6-month grace period

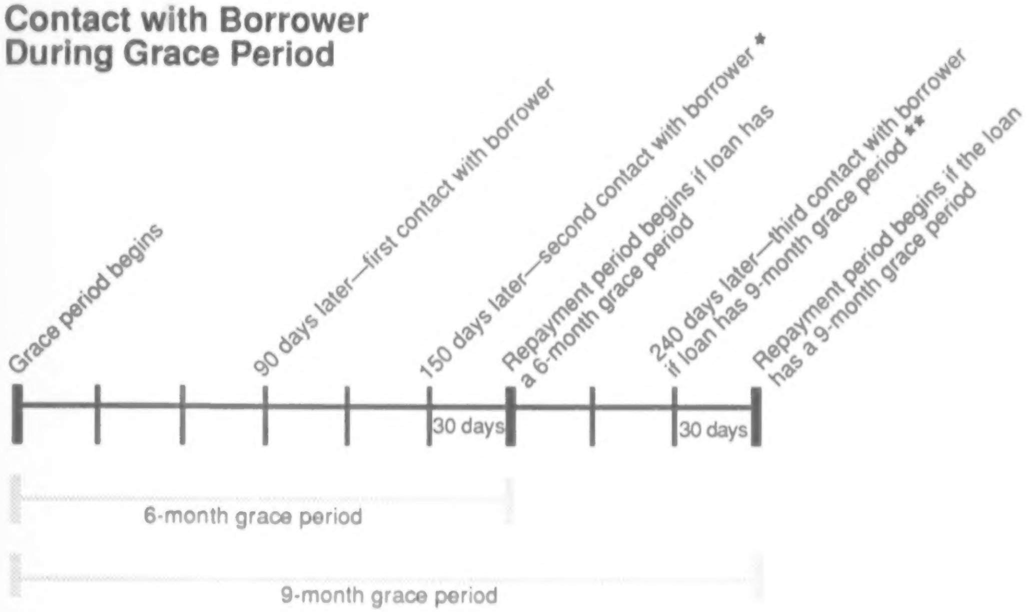
The school must contact the borrower during both initial and post-deferment grace periods to remind him or her when repayment will begin. For loans with a 9-month initial grace period, the school must contact the borrower three times (loans with a 9-month initial grace period are Perkins Loans, Direct Loans made before October 1, 1980, and Defense Loans). For loans with a 6-month initial grace period (Direct Loans made on or after October 1, 1980), the school must contact the borrower twice. Some loans (Perkins Loans and Direct Loans made on or after October 1, 1980) also have a *post-deferment* grace period of 6 months. The school must also contact the borrower twice during the post-deferment grace period.

The *first contact* must be *90 days* after any grace period (initial or post-deferment) begins. The school must remind the borrower of the responsibility to repay the loan and must send the borrower information about the total amount to be repaid (or remaining to be paid, if a payment has been made in the past). This information must include the amount of principal and interest over the remaining life of the loan, and the date and amount of the first payment (or next payment, if a payment has been made previously).

The *second contact* must be 150 *days* after any grace period begins, and the school must again remind the borrower of the date and amount of the first (or next) payment. The second contact is timed to coincide with the first billing notice for a loan with a 6-month grace period (30 days before the first payment is due). These two notices may be combined.

For borrowers with a *9-month* initial grace period, the school must make a *third contact 240 days* after the grace period begins to again remind the borrower of the date and amount of the first payment. As in the case of a 6-month grace period, this notice is timed to coincide with the first billing notice. Again, the school may combine the two notices (refer to the chart on the next page).

Contact with Borrower During Grace Period


Grace period begins
90 days later—first contact with borrower
150 days later—second contact with borrower *
Repayment period begins if loan has a 6-month grace period
240 days later—third contact with borrower if loan has 9-month grace period **
Repayment period begins if the loan has a 9-month grace period
30 days
30 days
6-month grace period
9-month grace period

* 30-day billing notice must be sent to borrower at the same time if loan has 6-month grace period.

** 30-day billing notice must be sent to borrower at the same time if loan has 9-month grace period.

BILLING PROCEDURES

Billing refers to that series of actions the school routinely performs to notify borrowers of payments due, remind them of overdue payments, and demand payment of overdue amounts.

Coupon system or written notice

The school may choose a coupon payment system as its method of billing. If so, the school must send the coupons to the borrower at least 30 days before the first payment is due. If the school does not use a coupon system, it must send the borrower, at least *30 days* before the first payment is due, a written notice giving the name and address of the party where payments should be sent and a statement of account (which includes information such as the total amount borrowed, the interest rate on the loan, and the amount of the monthly payment). The school must again send the borrower a statement of account at least *15 days* before the due date of each subsequent payment.

First overdue notice

If a payment is overdue and the school has not received a request for deferment, postponement, or cancellation, the school must send the borrower an *overdue notice* within *15 days* after the due date.

For loans made for periods of enrollment beginning on or after January 1, 1986:

Late charge required beginning 7/1/87

- Schools are required, beginning July 1, 1987, to impose a charge when the borrower's payment becomes overdue on a loan made for a period of enrollment that began on or after January 1, 1986.* The charge (called a *late* charge) is based either on the actual costs the school incurs in taking steps to obtain the overdue amount, or on average costs incurred in similar attempts with other borrowers. The charge may not exceed 20 percent of the installment payment most recently due. The school must notify the borrower of the amount of the charge and whether it will be added to the principal amount of the loan as of the first day the payment was due, or whether it must be paid in full by the next payment due date. Schools may wish to include this notice as part of the first overdue notice.

- The school must also impose a late charge if the borrower does not file a request for deferment, cancellation, or postponement on time.* The request must contain enough information for the school to determine whether the borrower is entitled to the relief requested.

Late charges may be waived if past-due payments paid in full

Late charges on loans made for periods of enrollment that began on or after January 1, 1986 may be assessed only during the billing process; they may not be imposed once the school begins collection procedures. The school may waive late charges against a borrower who repays the full amount of past-due payments.

Optional penalty charge before 1/1/86

Schools are authorized but not required to assess a penalty charge for an overdue payment on a loan made for a period of enrollment that began before January 1, 1986. The maximum penalty charge that may be assessed on a loan payable monthly is $1 for the first month and $2 for each additional month a payment is overdue; the maximum penalty for a loan payable bimonthly is $3; the maximum penalty for loans payable quarterly is $6. Penalty charges on these loans may be assessed only during the billing process.

Second notice

Final demand

If the borrower does not satisfactorily respond to the first overdue notice, the school must continue to contact him or her. A *second overdue notice* must be sent within *30 days* after the first. If there is still no response, a *final demand letter* must be sent within *15 days* after the second notice. The letter may be (but does not have to be) sent by certified mail. The final demand letter must inform the borrower that, unless the school receives a payment or a request for deferment, postponement, or cancellation *within 30 days* of the date of the letter, the school will refer the account for collection or litigation and will report the default to a credit bureau (assuming State law permits it).

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* The mandatory late charges do not apply retroactively to loans made before July 1, 1987, but would apply to any Direct Loan borrowers who have re-signed revised promissory notes.

In some cases, may send just a final demand

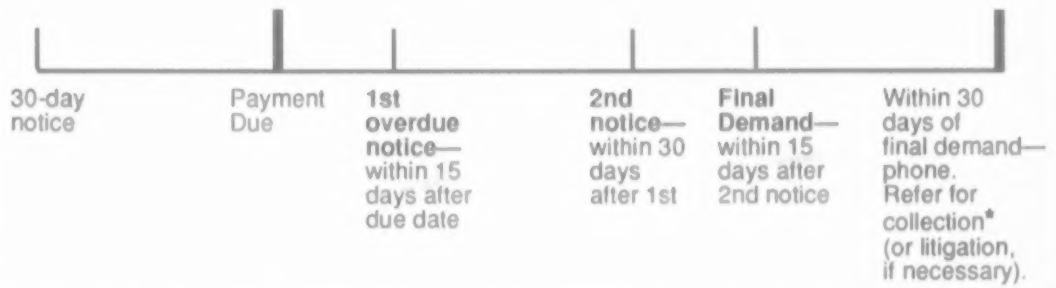
The school may skip the first two letters and send just the final demand letter within *15 days* after the payment is overdue if the borrower's repayment history has been unsatisfactory, or if the school can reasonably conclude the borrower does not intend to repay or to seek deferment, postponement, or cancellation. Unsatisfactory repayment history means a borrower has previously failed to make payments when due, to request deferment, postponement, or cancellation on time, or has previously received a final demand letter.

Telephone contact

If the borrower does not respond to the final demand letter within 30 days, the school must try to make contact by telephone before beginning collection procedures. As telephoning is often very effective in getting the borrower to begin repayment, the school may be able to avoid the more costly procedures of collection.

If the school calls a number and there is no answer, at least one other attempt to reach the borrower on a different day and at a different time should be made. If the borrower has an unlisted telephone number, the school must make reasonable attempts to obtain it by contacting sources such as the borrower's employer or parents. If the school is still unsuccessful, it should document that fact in its files.

Billing Procedures


30-day notice
Payment Due
1st overdue notice—within 15 days after due date
2nd notice—within 30 days after 1st
Final Demand—within 15 days after 2nd notice
Within 30 days of final demand—phone. Refer for collection* (or litigation, if necessary).

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* The school can utilize the services for the Department's Default Reduction Assistance Project (DRAP) before the loan goes to a collection firm; DRAP is discussed on pages 6-73 and 74.

Collecting from endorser

If the borrower does not respond satisfactorily to the final demand letter, the school must try and recover the amount owed *not only from the borrower but from any endorser of the loan.* Often, schools send the endorser a copy of the final demand letter sent to the borrower. From that point, the endorser usually receives copies of all future communications about the borrower's debt, including dunning letters, in an effort to recover the loan from one party or the other.

Acceleration

The school may choose to accelerate a loan if the borrower misses a payment or does not file for deferment or cancellation on time. Acceleration means making payable immediately the entire outstanding balance, including interest and any applicable late charges. Because this marks a serious stage of delinquency (afterwards, deferment and cancellation rights lapse, and enforcement action begins), the borrower should have one last chance to bring his or her account current. For that reason, if the school plans to accelerate the loan, it must send the borrower at least 30 days advance written notice. The notice may be included in the final demand letter, or in some other written notice to the borrower. If the loan is accelerated, the school must subsequently send the borrower a second notice, informing him or her of the date the loan was accelerated and the total amount due. Remember that acceleration is an option, not a requirement. However, if a school plans to assign the loan to the Department for collection, the school must first accelerate the loan.

ADDRESS SEARCHES

The school must take the following steps to locate the borrower if communications are returned undelivered (other than unclaimed mail):

- review the records of all appropriate institutional offices,
- review telephone directories or check with information operators in the area of the borrower's last known address, and
- use the IRS/ED skip-tracing service (discussed on the next page).

Skip tracing

If these methods are unsuccessful, the school must either use its own personnel to try to locate the borrower (employing and documenting efforts comparable to commercial skip-tracing services) or use a commercial skip-trace firm.

If the school still cannot locate the borrower after taking these steps, it must continue to make reasonable attempts at least twice a year. These efforts may end only if the school is able to assign the account to the U.S. Department of Education, or if the school is able to write off the account. (Assignments and write-offs are discussed later in this chapter.)

Safeguard Activity Report

Each school that participates in the Perkins Loan Program is required to use the IRS/ED Skiptracing Service as part of its address search procedures when mail sent to a borrower has been returned undelivered (Section 674.44 of the regulations). Therefore, it is further required that each participating school submit a Safeguard Activity Report in accordance with IRS Publication 1075 in order to maintain eligibility to participate in the IRS/ED Skiptracing Service. Failure to submit the annual report will put a school into a state of noncompliance with the regulatory requirements governing the school's exercise of due diligence for the collection of outstanding loans. Each year the Department sends a "Dear Colleague" letter to schools that participate in the Perkins Loan Program giving instructions for completing the required report (refer to "Dear Colleague" letter CB-91-11(LD), June 1991).

COLLECTION PROCEDURES

Collection procedures are the more intensive efforts the school must make when borrowers have not responded satisfactorily to billing procedures and are considered in default. Any funds collected must be deposited into an interest-bearing account (see page 6-66).

Collection of defaulted loan, if suspended for Persian Gulf crisis, must resume 3/1/92

> In order to assist those Perkins Loan, Direct Loan, and Defense Loan borrowers affected by the Persian Gulf crisis, schools were allowed to suspend the collection activities required under Subpart C - Due Diligence regulations for a borrower already in default when he or she was mobilized in the U.S. Armed Forces for Operation Desert Shield or Desert Storm. However, a school that chose to suspend collection activities was required to remind the borrower by January 15, 1992 that the collection activities would resume as of March 1, 1992

Report to credit bureau

The *first* step a school must take in the collections process is to report the defaulted account to a credit bureau, unless State law prohibits it. When choosing a bureau, the school should consider the location of the majority of students in repayment. (A school may use more than one bureau.) Schools can choose a bureau that serves the area where most of its students came from, or can choose one that serves the area where most of its graduates now reside.

Another factor a school may wish to consider is whether it wants a credit bureau that covers a wider area (regional or national coverage). It may want to coordinate its defaulted Perkins/NDSL referrals with institutional receivables. Cost versus service is another important factor.

The school must report any changes in a borrower's account status according to the reporting procedures of the credit bureau. The school also must respond promptly to any inquiries it receives from the bureau about the information referred.

Litigation or second effort

The *second* step the school must take in the collections process is to use its own personnel to collect, or hire a collection firm. The school has two options if its personnel or the firm it uses cannot convert the account to regular repayment status by the end of 12 months, (or if the borrower does not qualify for deferment, postponement, or cancellation)—the school must either litigate or make a second effort to collect.

Second effort to collect

A second effort to collect requires the following procedures:

- if the school first attempted to collect by using its own personnel, it must refer the account to a collection firm, unless State law prohibits it, and
- if the school first used a collection firm, it must either attempt to collect by using its own personnel, or use a different collection firm.

If a collection firm (retained by a school as part of its second effort to collect) cannot place an account into regular repayment status by the end of 12 months (or if the borrower does not qualify for deferment, postponement, or cancellation), the firm must return the account to the school. If by the end of 12 months the school is still unsuccessful in its effort to collect, the school must then litigate, unless it determines litigation would not be feasible (see page 6-65). The account may be eligible for assignment at this point (see pages 6-74 to 76). If it is not eligible for assignment and litigation is not feasible, the school must continue to try and collect from the borrower at least once a year.

Assessing collection costs against borrower

The school must assess all reasonable collection costs against the borrower, without regard to the provisions of State law. Since 1981, many borrowers have received loans under promissory notes that contain a limitation on the amount of costs that can be recovered from the borrower (25 percent of the outstanding principal and interest due on the loan). If these borrowers ask for new advances, however, the Department strongly encourages schools to issue new promissory notes (which would delete this provision) and require the provisions of the new note to apply to repayment of previous advances. The borrower will then be liable for *all* collection costs on all Perkins Loans/NDSLs.

School determines reasonable collection costs

The school determines what collection costs are "reasonable," as long as they are based either on actual costs the school incurs for each borrower, or on average costs incurred in collecting loans in similar stages of delinquency. The school should explain to the borrower how it calculates collection costs, based on the cost analysis used to support charges of these costs to the Perkins Loan Fund. The school must be able to document the basis for the costs assessed.

Portion of collection costs may be waived

Before filing suit on a loan, the school may waive a portion of the collection costs charged the borrower if doing so will give the school greater flexibility in negotiating repayment. Costs may be waived in direct proportion to the amount of the outstanding balance the borrower repays within 30 days of entering into a written repayment agreement with the school. For example, if the borrower repays one-half the outstanding balance on a loan within 30 days of the agreement, the school may waive one-half of the collection costs incurred through the date of that payment. Payment in full means the full amount of collection costs can be waived. The amount waived may be charged to the Perkins Loan Fund.

LITIGATION

Must sue under certain conditions

If collection efforts fail, the school must determine at least once a year whether all the conditions listed below are met. If so, the school must litigate. The conditions are:

- the total amount owed (including outstanding principal, interest, collection costs, and late charges) on all the borrower's Perkins Loans/NDSL's at the school is more than $200,
- the borrower can be located,
- the borrower either has enough assets attachable under State law to cover a major portion of the debt, or enough income that can be garnished under State law to satisfy a major portion of the debt over a reasonable period of time (defining "reasonable" is left to the school),
- the borrower does not have a defense that will bar judgment for the school (if the school determines that the borrower has a partial defense, it must weigh the costs of litigation against the costs of recovery, based on the amount of the enforceable portion of the debt), and
- the expected cost of litigation (including attorneys' fees) does not exceed the amount that can be recovered from the borrower.

May sue at any time

Even if all the above conditions are not met, the school may sue if it chooses. Note that the Higher Education Technical Amendments of 1991 (P.L. 102-26) eliminate any statute of limitations that would have applied formerly to enforcement actions to collect Perkins Loans/NDSLs.

Recovery of costs

The school must attempt to recover from the borrower all litigation costs, including attorneys' fees, court costs, and other related costs, to the extent permitted by applicable law. The school is also required to try and recover all costs previously incurred in the collection of overdue payments, if these collection costs have not been paid by the borrower; a percentage of these unrecovered costs may be charged to the Fund (see below).

Assignments

If the school cannot collect a payment after following all collection procedures (including litigation, if required), it may, with the Secretary's approval, assign the account to the U.S. Department of Education for collection (see pages 6-74 to 6-76 for assignment procedures).

DEPOSIT OF FUNDS COLLECTED

Deposit into interest-bearing bank account

The school must deposit any funds collected into an interest-bearing bank account. The account must be insured by an agency of the Federal Government, secured by collateral of reasonably equivalent value, or invested in low-risk income-producing securities, such as obligations issued or guaranteed by the United States.

May deduct service charges

The school may deduct from the interest earned any charges related to maintaining these accounts, such as service charges, and deposit only the net earnings into the Fund.

COSTS CHARGEABLE TO THE PERKINS LOAN FUND

The costs of actions a school takes in regard to past-due payments on a loan must be *charged to the borrower* as follows: billing costs associated with past-due payments *(not* routine billing costs) and costs of address searches, collection, litigation, the use of contractors, and bankruptcy litigation.

Billing costs chargeable to the Fund

The only *billing costs* a school may charge the Fund are the costs of telephone calls (made to the borrower as part of the billing procedures required before beginning collection procedures); the school may charge the Fund only if the amount recovered from the borrower does not suffice to pay the amount of the past-due payments and the late charges, and may charge the Fund only that portion of the late charges represented by the cost of the calls. If the school waived late charges for a borrower who repaid all past-due payments on a loan, the amount waived may be charged to the Fund.

Collection costs chargeable to the Fund

Only the collection costs discussed below that are *waived or not recovered from the borrower* may be charged to the Perkins Loan Fund:

- *Collection costs waived*

  Collection costs may be waived in direct proportion to the amount of the outstanding balance the borrower repays within 30 days of entering into a written repayment agreement with the school. For example, if the borrower repays one-half the outstanding balance on a loan within 30 days of the agreement, the school may waive one-half of the collection costs incurred through the date of that payment. Payment of the full amount of principal and interest means the full amount of collection costs can be waived. The amount waived may be charged to the Perkins Loan Fund.

- *Cost of a successful address search*

  A reasonable amount for the costs of each successful address search, if not paid by the borrower, may be charged to the Fund—provided the school either used a commercial skip-trace service or its own personnel, employing methods comparable to commercial skip-tracing practices. Defining a "reasonable" amount is left to the school.

- *Cost of reporting defaulted loans to credit bureaus*

  The following costs not paid by the borrower may be charged to the Fund: the cost of reporting a defaulted loan to a credit bureau, reporting any change in the status of an account to the bureau to which the school initially reported the account, and responding to any inquiry from any credit bureau about the status of a loan.

- *Collection costs*

  Collection costs not paid by the borrower may be charged to the Fund if they do not exceed—for *first collection efforts—33 1/3 percent** of the total principal, interest, and late charges collected from the borrower and—for *second collection efforts—50 percent** of the principal, interest, and late charges collected. The school must reimburse the Fund for collection costs initially charged the Fund but subsequently paid by the borrower.

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* These provisions may be amended by future regulations (refer to Sections 674.47(d) and (e) of the Proposed Rule published in the **Federal Register** November 13, 1990).

- *Litigation costs, including attorney's fees*

  Litigation costs, including attorney's fees, court costs, and other related costs, may be charged to the Fund if not paid by the borrower, but must not exceed the sum of:

  — court costs specified in 28 U.S.C. 1920;

  — other costs incurred in bankruptcy proceedings in taking actions required or authorized under Section 674.49 of the regulations;

  — costs of other actions in bankruptcy proceedings to the extent that those costs, together with other costs incurred in bankruptcy proceedings, do not exceed *33 1/3 percent** of the total amount of judgment obtained on the loan; and

  — *50 percent** of the total amount recovered from the borrower in any other proceeding.

Documenting charges to Fund

For audit purposes, a school must support costs charged to the Fund with appropriate documentation, including telephone bills and receipts from collection firms. Due diligence activities involving *fixed costs* (telephone contacts, credit bureau reporting, and bankruptcy procedures) may be charged to the Fund whether or not the actions are successful. Other activities are typically performed on a *contingent-fee* basis—address search, collection, and litigation (other than bankruptcy); the school may charge the costs of these activities to the Fund only if they are successful, as the school incurs no costs if they are not.

Write-off of account of $200 or less

Write-offs not included as a Fund asset

A school may write off a student's defaulted loan if the total amount owed on the account is $200 or less.** "Total amount owed" means outstanding principal, accrued interest, collection costs, and late charges. Another alternative would be for the school to elect to use its own funds to satisfy the debt. If the school writes off an account, it no longer includes it as an asset of the Fund. If the school receives a repayment from the borrower after the loan has been written off, the school must deposit it into the Fund.

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* This provision may be amended by future regulations (refer to Section 674.47(e) of the Proposed Rule published in the **Federal Register** November 13, 1990).

** This provision may be amended by future regulations (refer to Section 674.47(g) of the Proposed Rule published in the **Federal Register** November 13, 1990).

USING BILLING AND COLLECTION FIRMS

School ultimately responsible

The school may use a contractor for billing or collection, but the school is still responsible for complying with the Subpart C regulations about those activities. For example, the school, not the billing or collection firm, is responsible for deciding whether to sue a borrower in default. The school is also responsible for decisions about cancelling, postponing, or deferring repayment, extending the repayment period, and safeguarding the funds collected.

Billing service and collection firm must be separate

A school using a billing service may not use a collection firm that owns or controls the billing service, or is owned or controlled by the billing service. In addition, a school may not use a collection firm if both the collection firm and billing service are owned or controlled by the same corporation, partnership, association, or individual.

Quarterly activities statement

A school using either a billing service or a collection firm must ensure that the service or firm issues, at least quarterly, a statement showing the activities for each borrower, such as payments received or changes in the borrower's name, address, telephone number, or Social Security number, if known. The firm must also give the school, at least quarterly, a list of charges for skip-tracing activities and telephone calls.

Handling repayments

The school must also ensure that the billing service or collection firm instructs the borrower either to mail repayment checks to the school directly or to a bank where a lock-box is maintained for the school. Alternatively, the firm may deposit the funds into an interest-bearing institutional trust account. The firm may conmingle in their accounts the funds collected as long as they can identify the interest earnings and the amount collected by the institution. If a *collection* firm chooses this last procedure, it may, *if the school authorizes it,* deduct its fees before depositing the amount collected. A *billing* service may *not* deduct its fees from the amount it receives from borrowers.

Fidelity bond or comparable insurance

Just as schools are required to keep adequate fidelity bond coverage to protect the Government's interest in the Title IV funds they receive, it is appropriate to ensure the same sort of protection from third parties who handle Perkins/NDSL funds for the school. Accordingly, a school must ensure that its billing service and collection firm maintain a fidelity bond or comparable insurance to protect the accounts they service. Billing services (and *collection firms not authorized to deduct their fees* from borrowers' payments) must be bonded or insured in an amount not less than the amount of funds the school expects to be repaid in a two-month period on the accounts it refers.

Larger bond for collection firm that deducts fees

Collection firms authorized to deduct their fees from borrowers' payments must be bonded or insured as follows:

(1) If the amount the school expects to be repaid in a two-month period is *less than $100,000*, the collection firm must be bonded or insured in one of the following amounts, whichever is *less:*

- ten times the amount the school expects to be repaid on accounts it refers to the firm during a two-month period, *or*
- the amount the firm expects to collect in a two-month period on *all* accounts it has in its portfolio (not just the school's).

(2) If the amount the school expects to be repaid in a two-month period is *$100,000 or more*, the collection firm must be bonded or insured in an amount not less than the amount of funds the school can reasonably expect to be repaid during that two-month period. *The bond or insurance must name the school as beneficiary*. (This is not a requirement when the repayments expected in a two-month period are less than $100,000.)

The school must review annually the amount of repayments it expects to receive from billing or collection firms to ensure adequate bond or insurance coverage.

Law firm as collection firm

A school using a law firm to collect must review the firm's bond or its insurance policy to determine whether the firm is protected against employee misappropriation. If the firm's malpractice insurance also covers misappropriation of funds, that policy is considered to provide coverage.

SECTION SEVEN: DEFAULT

"Default" in the Perkins Loan Program is defined as "the failure of a borrower to make an installment payment when due or to comply with other terms of the promissory note or written repayment agreement." However, schools are required to comply with the due diligence regulations in regard to notifying the borrower about payments due or overdue, billing procedures, and collection procedures before resorting to litigation (due diligence procedures are discussed in Section Six). In addition, the formula to determine a *school's* Perkins Loan Program default rate considers only loans that are repayable monthly and in default at least 120 days, or repayable less frequently and in default at least 180 days (refer to the formula on the next page).

Student eligibility

The General Provisions regulations specify that, to be eligible to receive assistance under the SFA programs, a student must not be in default and must *certify* that he or she is not in default on any SFA loan (this certification is found on the back of Part 2 of the SAR). However, the regulations also provide the following exception to the above rule: a student who is in default on a loan made under the National Defense/Direct Student Loan, Perkins Loan, or ICL programs is eligible to receive assistance under an SFA program if both of the following conditions are met:

(a) the student is otherwise eligible, and

(b) the school that made the loan (or the Secretary, if the loan has been assigned to ED) certifies that the student has made satisfactory arrangements to repay that loan.

Satisfactory arrangements to repay before receiving further aid

A borrower whose defaulted loan has been assigned to the Department is ineligible for further aid from SFA programs until the borrower gives the school proof that he or she has made satisfactory arrangements to repay the loan. Proof is defined as three recent consecutive monthly payments to the Department of Education in an amount large enough to ensure repayment of the total debt within three years. A photocopy of the front and back of three cancelled checks made out to the Department are acceptable proof. (A school may telephone the ED Regional Office, Division of Credit Management and Debt Collection, to request information about the amount repaid.) However, the status of a loan that has been assigned to the Department is still considered in default until the loan is paid in full, even if the borrower has made satisfactory arrangements to repay the defaulted loan in order to qualify for additional aid from SFA programs.

Borrower unwilling to repay

When a judgment has been rendered on a defaulted Perkins Loan or NDSL, the borrower is obligated to repay only the amount of the judgment obtained on the loan. After a judgment is satisfied on the defaulted Perkins/NDSL, the student would again be eligible for future awards under these programs if all other eligibility criteria are met. However, if a judgment is satisfied *involuntarily* (such as by garnishing the borrower's wages), a school should consider this as evidence of unwillingness to repay and should deny further loan assistance to the borrower.

Defaulted Perkins/ NDSL not eligible for consolidation

A defaulted Perkins Loan or NDSL is not eligible for consolidation (see the discussion of loan consolidation in Chapter 10, Section 4) unless it is brought current and the past due amount on the loan is paid; a defaulted loan that is being repaid under a *court order* would remain in default status until paid, and is not eligible for consolidation.

An SFA loan that is discharged in bankruptcy is not considered to be in default.

SCHOOL'S DEFAULT RATE

Schools must report defaulted loans to ED

The Higher Education Technical Amendments Act of 1987 (P.L. 100-50) requires schools to provide to ED an annual report of the total number of loans in default. Previous law required semi-annual reports.

Default rate must not exceed 15% to receive FCC

A school's default rate is calculated for a particular year based on the information the school provides on the annual Fiscal Operations Report as of June 30 of that year. A school's default rate must not exceed 15 percent as of June 30, 1991, in order to qualify for any Federal Capital Contribution (FCC) for the 1992-93 award period (for further information, refer to "Dear Colleague" letters CB-90-21(LD) and CB-90-22(LD) dated September 1990). A school's "default rate" is represented as a fraction:

$$\frac{\text{Defaulted principal amount outstanding}}{\text{Matured loans}} \times 100 = \text{Default Rate}$$

"Defaulted principal amount outstanding" is defined as "(1) The total loan amount borrowed from an institution's Fund that has reached the repayment stage on those loans that are—(i) Repayable monthly and in default at least 120 days; or (ii) Repayable less frequently and in default at least 180 days; minus (2) That portion of these loans that have been—(i) Repaid or cancelled; (ii) Assigned to the Secretary; (iii) Discharged in bankruptcy; and (iv) Subject to a satisfactory written repayment agreement with which the borrower is currently in compliance."

ED may require documentation from school with high default rate

If a school's default rate exceeds 20 percent of the principal of all loans that are in repayment or the school has a high withdrawal rate (defined in the box below), the Department considers it an indication of a school's impaired capability to properly administer HEA programs and may require the school to submit the following documents for its most recent complete fiscal year (the documents must be prepared within 12 months of ED's request as required by Section 668.15(c) of the General Provisions regulations):

- a profit and loss statement and a balance sheet that are based on the same accounting procedures used by the school for financial reporting (ED may require that the profit and loss statement and balance sheet be audited by a licensed certified public accountant in accordance with generally accepted auditing standards);
- a financial audit of the school conducted by a licensed certified public accountant in accordance with generally accepted audit standards; or
- other information required by the Department to determine the cause of the high withdrawal or default rate and the best measures to alleviate that condition.

High withdrawal rates that may cause ED to require a school to submit documentation:

— For a school that has a common academic year for a majority of its students: a withdrawal rate exceeding 33 percent of the regular students who are enrolled on the first day of classes of an academic year and who withdraw from enrollment during that academic year.

— For a school that does not have a common academic year: a withdrawal rate exceeding 33 percent of the regular students enrolled on the first day of classes of any 8-month period who withdraw during that period.

ED's Default Reduction Assistance Project (DRAP)

To assist schools in bringing defaulted borrowers into repayment, ED has established the NDSL/Perkins Loan Default Reduction Assistance Project (DRAP), which is discussed in "Dear Colleague" letters CB-87-30(LD) dated September 1987, CB-88-5(LD) dated April 1988, and CB-88-18(LD) dated July 1988. Participation in DRAP is voluntary. Under DRAP, a school can request that ED send a borrower any of three letters designed to warn the student of the seriousness of default. These requests can be made either by written communication or through one of two automated options, magnetic tape or diskette. General questions about DRAP should be directed to the Campus-Based Program Administration Section.

(Refer to Chapter One of the *Federal Student Financial Aid Handbook* for the current telephone number.) As DRAP is intended to get the borrower back into repayment before the account goes to a collection firm, this service should not be requested once a collection agency is involved.

ASSIGNMENT

Assigned loans lower default rate

Loans accepted by the Department as assignments will serve to lower the school's default rate. Once a loan has been accepted by the Department, it will not be included in calculating the school's default rate thereafter. If the Department of Education accepts the assignment of a loan, it will give the school written notice to that effect. *By accepting the assignment, the Department acquires all rights, title, and interest in the loan.* After the Department has accepted the assignment of the loan, the school must send the Department any subsequent payment(s) the borrower may make.

School must repay Fund for unenforceable portion of assigned loan

Should the Department later determine an assigned loan to be unenforceable because of an act or omission on the part of the school or its agent, the school will have to compensate the Perkins Loan Fund in the amount of the unenforceable portion of the outstanding balance. Once the Fund is reimbursed, the Department transfers all rights to the loan back to the school.

In order to have a defaulted loan removed from a school's default rate on its June 30 Fiscal Operations Report for a particular year, the school must assign the loan to ED early enough to receive an ED acceptance notification with a "run-date" not later than June 30 of that year. A school may assign notes at any time during the year. In order to receive an ED acceptance notification in time to credit a defaulted loan toward a particular year's default rate, it is highly recommended, but not required, that the school submit the loan for assignment by February 15 of that year.

May assign notes any time during year

When a school assigns a loan to ED, copies of all approved requests for deferments/cancellations must be submitted. A school may keep its loan records on microforms or computer format. If records are kept in computer format, the school must keep either hard copy or microforms of the source documents. A copy of the original deferment/cancellation form must be sent with an assigned loan, not a computer generated form or microform.

Assignment conditions

The school may assign a defaulted Perkins Loan/NDSL to the U.S. Department of Education if—

- the school has not been able to collect despite following due diligence procedures (including litigation, if required);
- the total amount of the borrower's account to be assigned (including outstanding principal, accrued interest, collection costs, and late charges) is more than $200; and
- the loan has been accelerated.

Documents required for assignment

If the school submits a loan for assignment, it must include the following:

- an assignment form (Form 553, obtained from the U.S. Department of Education), which includes a written certification by the school that it has complied with all appropriate due diligence provisions;
- the original promissory note, or a certified copy;
- a copy of the repayment schedule;
- a certified copy of any judgment order entered on the loan;
- the complete payment history;
- copies of all approved requests for deferment and cancellation (the school must submit copies of the original deferment/cancellation forms, not computer-generated forms or microforms);
- a copy of the notice the borrower received containing the effective date of acceleration and the total amount due on the loan;
- documentation that the school has withdrawn the loan from any firm it employed for address search, billing, collection, or litigation, and documentation that it has notified the firm to stop collection; and
- copies of all pleadings the school has filed or received on behalf of a borrower who has filed for bankruptcy and whose loan has been determined nondischargeable.
- In addition, if the school's default rate is greater than 7.5 percent as of June 30 of the second year preceding the submission period, the school must also provide *documentation* that it has complied with all due diligence requirements in effect on the date the loan entered default.

Limitations on assignment

The Department will not accept assignment of a loan if—

- the school has not included the borrower's Social Security number;
- the borrower has received a discharge in bankruptcy—unless the bankruptcy court has determined that the loan obligation is nondischargeable and has entered a judgment against the borrower, or unless a court of competent jurisdiction has entered judgment against the borrower on the loan after the discharge order has been entered;
- the school has sued the borrower, unless the judgment has been entered against the borrower and assigned to the Federal Government; or
- the loan has been cancelled because the borrower has died or because the borrower has filed for, or been granted, cancellation due to permanent and total disability.

SECTION EIGHT: BANKRUPTCY

For the best advice on how to proceed when a borrower files for bankruptcy, schools should consult an attorney. The basic actions a school must take are covered here, in Section 674.49 of the November 30, 1987, Subpart C regulations and in the "Dear Colleague" letter GEN-90-41, dated December 1990 .

Changes in bankruptcy law

Two recent laws amend previous bankruptcy law—P.L. 101-508, the Omnibus Budget Reconciliation Act of 1990, signed on November 5, 1990, and P.L. 101-647, the Crime Control Act of 1990, signed on November 29, 1990. "Dear Colleague" letter GEN-90-41, dated December 1990, discusses changes in bankruptcy law that affect the Perkins Loan and other SFA loan programs.

P.L. 101-508 provides that, in a bankruptcy case filed on or after November 5, 1990, an SFA loan is generally nondischargeable under *either* Chapter 7 or Chapter 13 within 5 years (subsequently changed to 7 years by P.L. 101-647) after the loan first became due, exclusive of authorized periods of deferment and forbearance.

Section 3621 of P.L. 101-647, the Crime Control Act of 1990, signed on November 29, 1990, further modifies the Bankruptcy Code in two ways that affect SFA loans. First, the period during which an SFA loan may not generally be discharged in bankruptcy has been extended from 5 years to 7 years, calculated from the date the loan first came due to the date the bankruptcy action was filed, exclusive of authorized periods of deferment and forbearance. Second, an SFA loan is dischargeable during that same 7-year period only if the borrower proves that repayment would constitute an undue hardship. These two changes to the Bankruptcy Code took effect on May 28, 1991.

Stop collection outside bankruptcy proceedings

If the school receives notice that a borrower has filed for bankruptcy, it must immediately stop collection efforts (outside the bankruptcy proceeding itself). If the borrower has filed under Chapter 12 or 13 of the Bankruptcy Code, the school must also suspend collection efforts against any endorser.

Proof of claim

The school must file a proof of claim in the bankruptcy proceeding unless, in the case of a proceeding under Chapter 7 of the Bankruptcy Code, the notice of meeting of creditors states the borrower has no assets.

Undue hardship cases

PROCEDURES FOR CASES FILED UNDER CHAPTERS 7, 11, or 12 (REQUEST FOR DISCHARGE ON GROUNDS OF UNDUE HARDSHIP):

If the loan has been *in repayment for 7 years or more* (excluding deferment periods), the school may *not* oppose a discharge that has been requested on the grounds of undue hardship, because such opposition is not supportable under the law.

If the loan has been *in repayment for less than 7 years*, the school must determine, on the basis of reasonably available information, whether repayment under the current repayment schedule or under any adjusted schedule would impose undue hardship on the borrower and his or her dependents. If this would not be the case, the school must then decide whether the expected costs of opposing the discharge would exceed one-third of the total amount owed on the loan (principal, interest, late charges, and collection costs). If the expected costs do not exceed one-third of the total amount owed on the loan, the school must oppose the discharge and, if the borrower is in default, seek a judgment for the amount owed. The school may compromise a portion of that amount, if necessary to obtain a judgment.

When a borrower has filed a request for discharge on the grounds of undue hardship, if the school is required under the steps described above to oppose the borrower's request, the school may file a complaint with the court to obtain a determination that the loan is not dischargeable and to obtain a judgment on the loan.

Adjustment of repayment

PROCEDURES FOR CASES FILED UNDER CHAPTER 13 (ADJUSTMENT OF REPAYMENT):

Under Chapter 13, the borrower is not asking for a discharge, but is requesting an adjustment in repayments. The borrower proposes a repayment plan, which is then ruled on by the bankruptcy court. If the borrower's repayment plan proposes full repayment of the loan, including all principal, interest, late charges and collection costs on the loan, no response from the school is required. The school is also not required to respond to a proposed repayment plan that does not include any provision in regard to the loan obligation or to general unsecured claims.

If the borrower proposes to repay less than the total amount owed, the school must determine, from its own records and court documents, the amount of the loan dischargeable under the plan. The school does this by subtracting the total proposed payments from the total amount owed.

The school must also determine from its own records and court documents whether the borrower's proposed repayment plan meets the requirements of 11 U.S.C. 1325.[*] Two of those requirements are particularly relevant:

- First, the amount to be paid under the plan must at least equal the amount the school would receive if the debtor had filed under Chapter 7 rather than under Chapter 13.

- Second, the debtor must use all income not needed to support him/herself and dependents to pay creditors under the plan.

If the borrower's proposed repayment plan does not meet the requirements of 11 U.S.C. 1325, the school must object to the confirmation by the court of the proposed plan, unless the cost of this action will exceed one-third of the dischargeable loan debt; if the cost will exceed one-third of the dischargeable debt, the school is not required to take this action.

Also, when a borrower proposes to repay less than the total amount owed, the school must determine whether grounds exist under 11 U.S.C. 1307[*] for the school to move to have the Chapter 13 case either dismissed or converted to a Chapter 7 proceeding. Such grounds include a borrower's failure to (1) begin payments under the plan within the required time (usually 30 days from the date the plan is filed), (2) file a proposed plan in a timely manner, or (3) pay required court fees and charges. If the school determines that such grounds do exist, the school must move to dismiss or convert the Chapter 13 case to a Chapter 7 proceeding, unless the cost of this action will exceed one-third of the dischargeable loan debt.

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[*] 11 U.S.C. 1307, 1325, and 1328(b) are laws applicable to bankruptcy cases in general, not just to Perkins bankruptcy cases. 11 U.S.C. 1307 concerns the dismissal of a Chapter 13 case or the conversion of a case filed under Chapter 13 to a Chapter 7 proceeding. 11 U.S.C. 1325 concerns the confirmation by the court of a borrower's proposed repayment plan. 11 U.S.C. 1328(b) concerns the discharge of debts. As stated previously, for the best advice on how to proceed when a borrower files for bankruptcy, schools should consult an attorney.

School must monitor borrower's compliance

After a borrower's proposed repayment plan is confirmed by the court, the school must monitor the borrower's compliance with the repayment plan. For a loan that entered repayment more than 7 years before the borrower filed for bankruptcy (excluding periods of deferment), if the school determines from its own records or court documents that the borrower either has not made the payments required under the plan or has filed for a hardship discharge under 11 U.S.C. 1328(b),* the school must determine whether grounds exist under 11 U.S.C. 1307 to dismiss the case filed under Chapter 13 or to convert the Chapter 13 case to a Chapter 7 proceeding, or whether the borrower is entitled to a hardship discharge. If grounds do exist under 11 U.S.C. 1307 to dismiss or convert a Chapter 13 case, the school must move to convert or dismiss the case, and if a borrower has not demonstrated entitlement to a hardship discharge under 11 U.S.C. 1328(b), the school must oppose the hardship discharge request, unless the costs of these actions, when added to those already incurred, would exceed one-third of the dischargeable debt.

Resuming billing and collection if loan is not discharged

The school must resume billing and collection if the borrower's case has been dismissed, or if the borrower has received a discharge that did not affect his student loan obligation. (For example, the loan entered repayment within five years after the petition was filed, but the borrower did not secure a determination from the court that repayment would constitute an undue hardship. Or, the loan was not scheduled by the borrower, and the school did not know of the proceeding in time to file a claim. Another example would be if the plans did not address unsecured debts.) However, there are certain qualifications. For more information, see the Subpart C regulations, Section 674.49 (f). In those cases where the school cannot resume billing and collection against the borrower, the school must pursue the endorser.

Effect of bankruptcy on other aid

As a Perkins Loan/NDSL that is discharged in bankruptcy is not considered to be in default, the student whose loan has been discharged in bankruptcy is eligible to receive assistance from Title IV SFA programs. Nonetheless, a school may deny the student a Perkins Loan/NDSL on the basis that a loan previously discharged in bankruptcy is evidence that the student would be "unwilling to repay" the Perkins Loan/NDSL.

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* See footnote on previous page.

APPENDIX:
REQUIRED PROMISSORY NOTE PROVISIONS

Sample promissory notes were published in the **Federal Register** Proposed Rule dated March 13, 1991. These sample promissory notes correct typographical errors in the notes previously published in the December 1987 campus-based regulations and clarify the requirements for handling prepayments made by borrowers; the notes reflect the current regulatory requirements. An Addendum to the promissory note for Perkins Loans and Direct Loans made on or after November 29, 1990 was distributed in the "Dear Colleague" letter CB-91-6, April 1991. The Addendum contains the new cancellation provision for law enforcement or corrections officers, which will be incorporated in the final regulations to be published in the near future. Until this occurs, schools must provide a copy of the Addendum to all borrowers who had a Perkins Loan or Direct Loan made on or after November 29, 1990 in order to inform them of the new law enforcement concellation provision. The school must have the borrower sign both the original promissory note and the Addendum. A final Rule will be published in the near future. If a school does not use the notes in the March 13 Proposed Rule,* the school's promissory notes *must* contain at least the following provisions or information:

- *Interest rate*

  The interest rate is 5 percent. No interest accrues before the repayment period begins, or during deferment and the subsequent grace period. (The exception is that interest does accrue during a hardship deferment.)

- *Repayment period*

  The repayment period may begin earlier than that specified in the note, if the borrower requests it, and may vary in length because of minimum monthly repayments (see page 6-30 for more information). Promissory notes for less-than-half-time borrowers must state when the repayment period begins.

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* The final regulations will require that all schools use the revised promissory notes.

- *Repayment installments*

  The borrower must repay the loan in equal quarterly, bimonthly, or monthly installments as determined by the school, or in graduated installments if the borrower requests it and the school submits the repayment schedule to the Department of Education for approval.

- *Death or disability of borrower*

  Unpaid principal, interest, late charges, and collection costs are cancelled if the borrower dies or becomes permanently disabled after receiving the loan.

- *Prepayment of loan*

  The student may prepay at any time without penalty (see page 6-29).

- *Late charge*

  The promissory note must state that the school will assess a late charge if the borrower is late with a payment, or if the borrower does not file a request for cancellation or deferment with the school on time. The request must include sufficient evidence to enable the school to determine whether the borrower qualifies for what is being requested. (For more information on late charges, see page 6-60.)

- *Collection costs*

  The promissory note must state that the borrower shall pay all attorneys' fees and other loan collection costs and charges necessary for the collection of any amount not paid when due.

- *Acceleration of loan*

  The school may demand immediate repayment of the loan if the borrower misses a payment or does not file deferment or cancellation forms on time (see page 6-62 for more information)

- *Disclosure of information to credit bureaus*

  If the borrower defaults, the school may disclose the default, along with other relevant information, to a credit bureau. If the loan is assigned to the Department of Education, the Department may disclose the default to a credit bureau.

- *Security and endorsement*

  A school may require security and endorsement only if the borrower is a minor *and* if, under applicable State law, a note signed by a minor would not create a binding obligation.

- *Deferment of payments and interest*

  See Section Four of this Chapter for a discussion of deferment provisions.

- *Cancellation provisions*

  See Section Five of this Chapter for appropriate cancellation provisions.

- *Assignment*

  See pages 6-74 to 6-76 for a discussion of assignment.

- *List of prior National Direct, National Defense, or Perkins Loans*

  The borrower must certify the amount of each loan, the date of the loan, and the name of the school where he or she obtained the loan.

- *Schedule of Advances*

  A record of the date and amount of each advance—the borrower must sign this Schedule.

- *Borrower's signature, permanent address, Social Security number, and telephone number*

  The borrower must inform the school if his or her name, address, Social Security number, or telephone number changes.

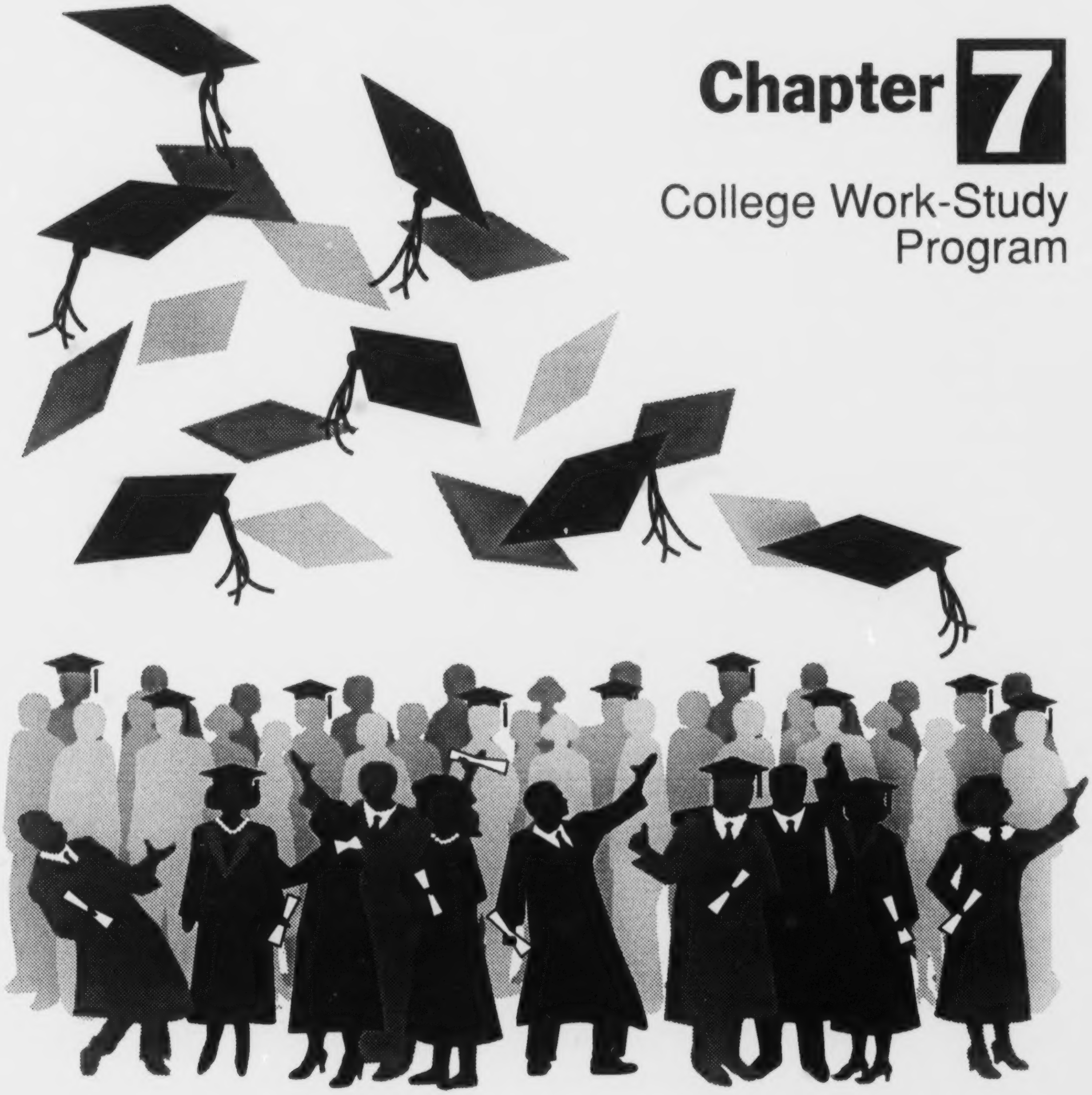
United States
Department of
Education

Office of
Student Financial
Assistance

The Federal Student Financial Aid Handbook, 1992-93

Chapter 7

College Work-Study Program



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INTRODUCTION

The College Work-Study (CWS) Program gives part-time employment to undergraduate and graduate students who need the income to help meet the costs of postsecondary education.

SELECTING ELIGIBLE RECIPIENTS

To be eligible for a CWS job, a student must meet all eligibility requirements listed in Chapter Two, Section One. In addition, a student must have "financial need"—his or her cost of attendance must be greater than the expected Family Contribution (FC). (Unlike the other two campus-based programs, the CWS Program does not require that priority be given to students who have *exceptional* financial need.) Also, a financial aid administrator may not award CWS employment to a student if that award, when combined with all other resources, would exceed the student's need (refer to Section Three of this Chapter: Resources and Overawards). In choosing students for CWS employment, schools must follow the selection procedures discussed in Chapter Five, Section One.

CWS not permitted for second undergraduate degree

Both undergraduate and graduate students are eligible to apply for employment under the CWS Program. However, persons who have earned a bachelor's degree or first professional degree are not eligible to receive a CWS award to pursue a *second* undergraduate degree (refer to "Dear Colleague" letter CB-91-9, May 1991, page 4).

ASSIGNING JOBS

A school must make CWS jobs reasonably available to all eligible students at the school. In addition, if a school's allocation is directly or indirectly based in part on the financial need of its part-time students, the school must award a reasonable proportion of its CWS allocation to those students (see Chapter Five, Section One). To the extent funds are available, the school must also make available "equivalent employment" (that is, similar non-CWS jobs offered or arranged by the school) to all students at the school who want to work.

General considerations

Complement academic/ career goals

In assigning a CWS job, a school must consider the student's financial need, the number of hours per week the student can work, the period of employment, the anticipated wage rate, and the amount of other assistance available to the student. While there is no minimum or maximum award, the amount for each student should be determined based on these factors. Of course, a CWS award, when combined with other sources of financial aid, may not exceed the student's need. To the maximum extent practicable, a school must provide CWS jobs that will complement and reinforce each recipient's educational program or career goals.

On- or off-campus jobs

CWS jobs may be "on campus" or "off campus" (see Section Five of this Chapter: Types of Employment). Off-campus jobs must be in the public interest if the work is for a Federal, State, or local public agency, or for a private nonprofit organization. However, a school may use part of its CWS allocation to provide jobs in private for-profit organizations.

JOB DESCRIPTIONS

Each CWS position should have a job description that includes the following:

- name and address of employer (department, public agency, nonprofit organization),
- purpose of job,
- duties and responsibilities,
- job qualifications,
- wage rate or range,
- length of employment (beginning and ending dates), and
- name of supervisor.

The job description has several purposes. It will clearly define whether the job qualifies under the CWS Program. It will provide the information needed to explain the position to students and help them select the type of employment closest to their educational or career objectives. A job description will help the financial aid administrator, the student, and the supervisor determine the number of hours of work required at the specified wage rate to meet a student's financial need. The description also establishes a written record, for both student and employer, of the job's duties and responsibilities, so there can be no misunderstanding.

SECTION ONE:
EMPLOYMENT CONDITIONS AND LIMITATIONS

The following provisions apply to all work under CWS, whether on campus or off campus.

General conditions

CWS employment must be governed by employment conditions, including pay, that are reasonable according to the type of work performed, the geographic region, the employee's proficiency, and any applicable Federal, State, or local law.

Minimum wage

CWS employers must pay students at least the current Federal minimum wage. On April 1, 1990, the minimum wage was increased to $3.80 per hour, and beginning April 1, 1991, the minimum wage is $4.25.*

Must not displace regular workers

CWS employment must not displace employees (including those on strike) or impair existing service contracts. Also, if the school has an employment agreement with an organization in the private sector, the organization's employees must not be replaced with CWS students. Replacement is interpreted as displacement.

Limitations on religious involvement (consider purpose of work)

CWS positions must not involve constructing, operating, or maintaining any part of a building used for religious worship or sectarian instruction. In determining whether any CWS employment will violate this restriction, a school must consider the purpose of the work rather than the nature of the employing organization. In general, work in any part of a facility serving a religious function (for example, an area that is used as both a dining hall and worship area) usually cannot be supported under CWS. However, a student could work in a soup kitchen sponsored by a religious order because the work would benefit the public, not the order. (Note that the soup kitchen could be located in the basement of a church, for example, as long as the church does not use the basement for religious functions connected with the operation of the soup kitchen.) A tutoring program sponsored by a religious order would also be acceptable CWS employment.

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* The Fair Labor Standards Amendments of 1989, which raised the minimum wage, also established a new "subminimum" or training wage that is lower than the minimum wage. However, it is not permissible to pay wages at the subminimum wage rate to students in CWS jobs.

Fees or commissions prohibited

Neither a school nor an outside employer that has an agreement with the school to hire CWS students may solicit, accept, or permit to be solicited any fee, commission, contribution, or gift as a condition for a student's CWS employment. However, a student may pay union dues to an employer if they are a condition of employment, and if the employer's non-CWS employees must also pay dues.

Voluntary services prohibited

The Fair Labor Standards Act of 1938, as amended, prohibits employers (including schools) from accepting voluntary services from any paid employee. Any student employed under CWS must be paid for all hours worked.

Academic credit for Work-Study

The fact that a student may receive academic credit from the work performed does not disqualify the job under CWS. However, there are certain restrictions. If a student must complete an internship or practicum as part of his or her degree requirement and would not normally be paid for doing so, the internship or practicum does not qualify under CWS. If students are normally paid, they may be employed under CWS. The fact that a student receives academic credit for a CWS job does not mean the student should be paid any less than he or she would be paid if no academic credit is received. A student may not be paid for receiving instruction in a classroom, laboratory, or other academic setting.

Garnishment of CWS wages

A student's CWS wages may be garnished only to pay any costs of attendance that the student owes the school or that will become due and payable during the period of the award. Schools must oppose any garnishment order they receive for any other type of debt; paying CWS funds in such cases would mean that funds would not be used "solely for educational purposes"—a requirement for SFA funds. As schools may not necessarily be the employers in an off-campus employment arrangement, they must adopt effective procedures to notify off-campus employers that garnishment of CWS wages for any debt other than a cost of attendance is not permissible.

SECTION TWO:
EARNINGS APPLIED TO COST OF ATTENDANCE

Subtract taxes and job-related costs

Not all of a student's CWS earnings are available to the student for educational expenses. In addition, the student may have other job-related expenses. Therefore, to determine the net amount of a student's CWS earnings that will be available to help pay for his or her cost of attendance, the school must subtract estimated taxes and job-related costs from the student's gross CWS earnings. Examples of job-related costs include uniforms, the cost of meals at work, and transportation to and from work. During vacation periods, room and board may also be considered job-related costs if the student is paying them only because he or she has a CWS job.

For example, to earn a net CWS award of $1,000, a student with Social Security tax of 7.65 percent and $100 in job-related expenses may earn up to $1,176.50 in gross earnings ($1,000 + $76.50 + $100). Only the net earnings of $1,000 is available to count toward the student's need for Federal student aid and to help pay for the student's cost of attendance. Federal and State income taxes may also be withheld from a student's wages. In some cases, these should also be deducted from the student's gross income to calculate the net amount available to the student; however, if the aid administrator is certain that the student's taxes will be refunded by the Internal Revenue Service, they should not be considered in calculating the net wages available to the student for the CWS award.

If the student works during a vacation or other period when he or she is not attending classes, his or her net CWS earnings (earnings minus taxes and job-related expenses) must be counted toward payment of the student's cost of attendance for the *next* enrollment period.

Schools are encouraged to tell students what amount of earnings will be counted toward payment of their cost of attendance. Of course, at the end of a student's employment, the school will need to review the estimate to see if it was accurate and make adjustments if it was not.

SECTION THREE: RESOURCES AND OVERAWARDS

As stated earlier, a student must have "financial need" to be eligible for a CWS job—the student's cost of attendance must be more than the amount of his or her Family Contribution (FC) as calculated by a Congressional Methodology need-analysis formula. In addition, a financial aid administrator may not award CWS employment to a student if that award, when combined with all other resources, would exceed the student's need. "Resources," as defined in the campus-based regulations, are listed in Chapter Five, Section Three: Resources and Overawards. The procedures for determining a student's FC are in the publication, *The Congressional Methodology, 1992-93.* Procedures for determining a student's cost of attendance, resources, and eligibility for campus-based aid are in Chapter Five, Section Two: Need Analysis. Additional information about resources and overawards, as they apply to the CWS Program, is included below.

Cost of attendance
- Family Contribution
=Financial need

DETERMINING MAXIMUM CWS ELIGIBILITY

In determining the maximum CWS award a student is eligible to receive, the aid administrator must take into account the following resources:

- those resources the aid administrator can reasonably anticipate at the time aid is awarded to the student,
- those the school makes available to its students, or
- those the aid administrator knows about.

Maximum CWS award =
Financial need
- Other resources

The sum of a student's CWS award plus other resources may not exceed his or her financial need.

Non-need-based earnings, such as earnings from a job a student locates on his/her own with a private employer, are not considered to be a resource for the current award year, because they will be reported on the application for Federal student aid for the subsequent award year and will be used to determine the FC for the subsequent award year. Only net income from *need-based* employment may now be considered as a resource. (See the revisions to Sections 674.14, 675.14, and 676.14 of

Non-need-based employment is not a resource

the campus-based programs' regulations, published in the **Federal Register** December 28, 1988.) Examples of need-based employment would be employment under the Department of Veterans Affairs' work-study program, and employment with a State if based on the student's need for assistance to pay for educational expenses.

If the student receives additional resources *at any time during the award period* that were not considered in calculating the student's CWS award, and these resources—including the expected CWS wages—will exceed the student's need, the overaward is the amount in excess of the student's need.

STEPS TO TAKE IF RESOURCES EXCEED NEED

CWS earnings of up to $200 in excess of need are not considered to be an overpayment in the current award year and should not be counted in the following award year, either as a resource or as income to be included in calculating the family contribution. Non-need based earnings, on the other hand, will be counted as income for the following year.

If a school learns that a student earning CWS wages has received additional resources that were not included in calculating the student's CWS eligibility, the school must take the following steps:

(1) If the student's financial aid includes a Stafford or SLS loan, the school must first return to the lender any Stafford or SLS disbursement (or portion of a disbursement) not yet delivered to the student that exceeds the amount of assistance the student is eligible to receive. Note that, unlike the campus-based programs, the Stafford and SLS loan programs do not allow a $200 tolerance before a school is required to take action to eliminate an overaward. A school may attempt to reduce or eliminate the overaward by using a student's SLS, PLUS, or *non-subsidized* Stafford Loan to cover the student's FC. (Stafford and SLS overawards are discussed in Chapter Ten, Section Six, under "Estimated Financial Assistance.")

(2) If, after eliminating any Stafford or SLS overaward, the student's total resources exceed the student's need by *more than $200*, the school must recalculate the student's need to determine whether he or she has increased need that was not anticipated when the school awarded aid to the student; if the student's need has increased, and the total resources do not exceed the increased need by more than $200, the school is not required to take any further action.

(3) If the student's need has *not* increased, or his or her need has increased but the total resources still exceed his or her need by *more than $200*, the school must cancel any loan or grant (other than a Pell Grant) that has not already been disbursed.

(4) If the school recalculates the student's need and determines that the student's need has increased, and the total resources do not exceed that increased need by more than $200, the school may use CWS funds to pay the student until the CWS award has been earned or until the student's increased need has been met. In addition the school may continue employing the student under CWS after the full amount of the CWS award has been earned and the student's financial need has been met, but may only pay the student with CWS funds up to the time the income from all employment—*both need-based and non-need-based*—exceeds the student's financial need by more than $200. At that point, CWS funds may no longer be used to pay the student. The school may continue to employ the student, but funds other than CWS funds must be used to pay the wages. (See case study #3 on page 7-11.)

Section 675.14(d)(1) & (2) of 12-28-88 regulations

MONITORING EARNINGS

In order to prevent overawards, schools must monitor* net income from *need-based* employment, which is considered to be a resource. However, *non-need-based* income is not counted as a resource, and therefore a school is not required to monitor *non-need-based* earnings during the award year unless all of the following conditions apply to a student:

- the student is employed under CWS,
- the student's financial need has been met, and
- the school wishes to continue to employ the student under the CWS Program.

If all of the conditions listed above apply to a student, the school would need to monitor the student's non-need-based earnings, but would need to monitor them only between the time the student's need has been met and the time his or her need has been exceeded by more than $200 by income from any employment and only for the purpose of determining when CWS funds may no longer be used to pay the student.

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* The school monitors each student's net income from need-based sources, to determine if the student's need has been met, by examining the school's payroll records of disbursements to the student under the CWS Program and any other need-based employment program. The school's CWS fiscal records must be reconciled at least monthly.

The following case studies illustrate the need for a school to monitor a student's employment in some situations but not in others (see the December 28, 1988 **Federal Register**).

Employment case study #1

Julie has financial need of $3,000. She was awarded a Pell Grant of $1,000, an SEOG of $1,000, and a Perkins Loan of $1,000. She also has employment off-campus that she obtained herself. The institution has determined this employment to be non-need-based employment. No monitoring of her earnings is required nor is an adjustment to her student financial aid package required as a result of her non-need-based employment.

Employment case study #2

Howard has financial need of $2,000. He was awarded a CWS job of $2,000. He also works off-campus in a position which he obtained himself. The institution has determined this employment to be non-need-based employment. He has earned $2,000 in the College Work-Study Program, had job-related costs of $100 for taxes and uniforms, and the school plans to terminate his employment when he reaches $2,100 in CWS earnings. The institution must monitor only his CWS employment, as it plans to terminate his CWS employment when his need is met.

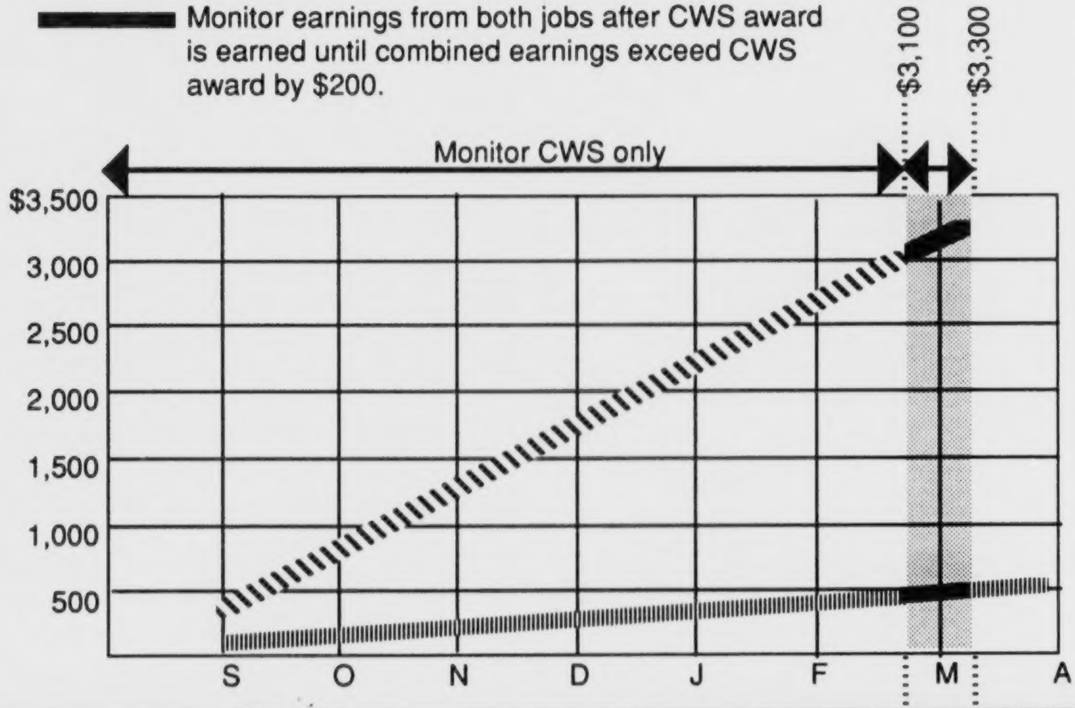
Employment case study #3

Linda has financial need of $5,000. She is awarded a Perkins Loan of $2,000 and CWS employment of $3,000. Her CWS job-related costs are $100. She also works off-campus at a non-need-based job. The school monitors her CWS earnings but not her non-need-based earnings until Linda earns her CWS award plus job-related costs—$3,100. If her CWS job is terminated at that time, no further monitoring is required. If the school wishes to continue employing her, the school must begin monitoring both her CWS and non-need-based earnings; when the additional combined earnings exceed her CWS award by $200, no further CWS funds may be used to pay her. Linda earned her CWS award (plus job-related costs)—$3,100—by March 21. Between March 21 and April 10, her additional combined earnings were $200 ($75 from her non-need-based job and $125 from CWS). Afterward, Linda could continue in the job that was formerly a CWS job, provided that the school used its own funds to pay her; she could also continue to work at her non-need-based job. No further monitoring would be required, since no additional CWS funds would be used to pay Linda.

▨ CWS job—School must monitor all CWS earnings

▥ Non-need-based job—School not required to monitor earnings unless CWS award (plus CWS job costs) has been earned and school plans to continue her CWS employment.

▬ Monitor earnings from both jobs after CWS award is earned until combined earnings exceed CWS award by $200.



SECTION FOUR: PAYING STUDENTS

Undergraduates—hourly wage; graduates—hourly wage or salary

Undergraduate students are paid CWS wages on an hourly basis only. Graduate students may be paid by the hour or may be paid a salary. Regardless of who employs the student, the school is responsible for making sure the student is paid for work performed.

Determining work schedule

A school should determine the number of hours a student is allowed to work based on the student's financial need and on how the combination of work and study hours will affect the student's health and academic progress. There are no statutory or regulatory limits on the number of hours per week or per payment period a student can work, provided no overaward occurs. (See Section Three: Resources and Overawards.)

ESTABLISHING WAGE RATES

A student must be paid at least the current Federal minimum wage, but there is no maximum wage rate. On April 1, 1990, the minimum wage was increased to $3.80 per hour, and beginning April 1, 1991, the minimum wage is $4.25.* A school may not count fringe benefits as part of the wage rate and may not pay a student commissions or fees. In determining an appropriate rate, the school must consider the following:

Pay related to skills

- the skills needed to perform the job,
- how much persons with those skills are paid in the local area for doing the same type of job,
- rates the school would normally pay similar non-CWS employees, and
- any applicable Federal, State, or local laws that require a specific wage rate.

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* See the footnote on page 7-3.

A student's need places a limit on the total CWS earnings permissible but has no bearing on his or her wage rate. It is not acceptable to base the wage rate on need or on any other factor not related to the student's skills or job description. If a student's skill level depends on his or her academic advancement, the school may pay a student on that basis. For example, a junior or third-year lab student may be paid a higher rate than a sophomore or second-year lab student. However, in most cases, students performing comparable jobs should be paid comparable wages, whether the jobs are performed by students at different class levels or by a student and a regular employee.

DISBURSEMENT

At least monthly

A school must pay a student at least once a month. The Federal share of CWS compensation must be paid by check or similar method (a draft or purchase order or electronic transfer to the student's bank account, for example) that the student can cash on his or her own endorsement. The school may not directly transfer the Federal share to a student's account at the school, nor may it obtain a student's power of attorney to authorize any disbursement of funds unless the Department has granted prior approval. Such a power of attorney (to allow a school to act on behalf of a student) would not be granted by the Department unless the school could demonstrate that there is no one else who could act on behalf of the student (such as a relative, landlord, or member of the clergy, for example.)

If the school pays its share of CWS wages by *check*, it must pay the non-Federal share to the student at the same time it pays the Federal share. (See Section Six: Using CWS Program Funds for a discussion of Federal and institutional shares of CWS compensation.) CWS wages are earned when the student performs the work. A school may pay the student after the last day of attendance for CWS wages earned while the student was still in school. However, when a student has withdrawn from school, CWS funds may not be used to pay for work performed after the student withdrew. A correspondence student must submit the first completed lesson before receiving payment.

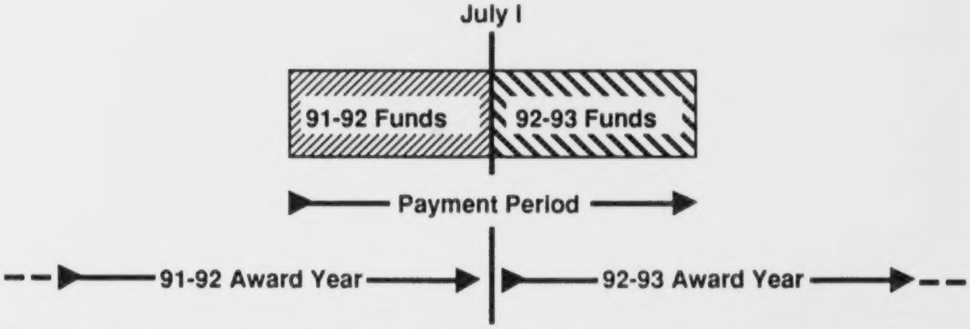
Noncash contribution

If the school pays its share of CWS wages for an award year in the form of a *noncash contribution* (tuition, fees, services, or equipment), it must do so before the final payroll period of the award year. If the school pays this share in the form of *prepaid* tuition, fees, services or equipment, it must give students—again, before the end of the final payroll period—a statement of the amount of the noncash contribution earned. (For more information on using noncash contributions as part of the school's share of CWS wages, see Section Six: Using CWS Program Funds.)

Payment period crosses award years

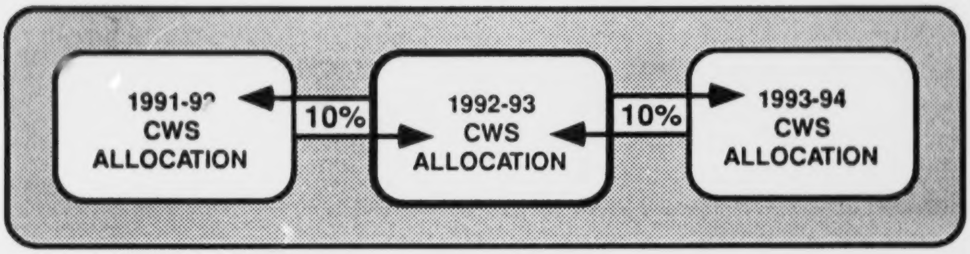
When a payment period is in two award years (before and after July 1), the student is ordinarily paid for compensation earned through June 30 with funds allocated for the first award year, and, for compensation earned beginning July 1, with funds allocated for the following award year. For example, for a payment period extending from June 15, 1992 to July 15, 1992, a student would ordinarily be paid with the school's 1991-92 allocation through June 30 (the end of the 1991-92 award year), and with the school's 1992-93 allocation beginning July 1, 1992 (the beginning of the 1992-93 award year). The school must prepare two payrolls: one through June 30 and the other beginning July 1.

Payment Period In Two Award Years



Exception—carry forward/ carry back

However, a school is allowed to carry forward up to 10 percent of its CWS initial and supplemental allocation for the current award year to the following award year and to carry back up to 10 percent of the next year's CWS initial and supplemental allocation to the current award year. (For a discussion of carry forward/carry back, see Section Six: Using CWS Program Funds.) If the school carries forward funds from the current award year to the following award year, the expenditures are charged to the allocation for the current award year. If the school carries back funds from the next year to the current year, the expenditures are charged to the next award year.



Carry forward/carry back funds are subject to the Federal/non-Federal percentage matching requirement of the year to which they are carried forward or back. Paying students from the correct award year is important; schools have been held liable when students were paid from the wrong CWS authorization. For audit and program review purposes, the school must have cancelled checks in its files to show that students received payment in the amount charged to the CWS Program.

The school may use any type of payroll period it chooses, provided students are paid at least monthly. It is a good idea to have the CWS payroll correspond to other, similar payrolls at the school.

PAYROLL RECORDS

Separate CWS payroll

For reporting and control purposes, CWS expenditures must be distinguishable from other institutional expenditures. CWS compensation should either be entered on a separate voucher or, if listed on the general payroll voucher, should be grouped separately from other expenditures. If payrolls are handled on automatic data processing equipment, a special code for CWS payments should be used.

Voucher contents

Payroll vouchers must support all payroll disbursements and should provide space for the following information—

- school's name and address;
- starting and ending dates of the payroll period;
- student's name;
- identification of the student's job;
- number of hours worked during the pay period;
- hourly rate of pay for undergraduate students;
- hourly rate of pay or salary for graduate students;
- gross earnings;
- compensation withheld for Federal, State, county, or city taxes, and other deductions;
- noncash payments;
- net earnings;
- check number, duplicate receipt, or other payment identification; and
- overtime earnings (a student may be paid overtime with CWS funds).

SECTION FIVE:
TYPES OF EMPLOYMENT

As stated earlier, CWS jobs may be on or off campus. Off-campus jobs must be in the public interest if the work is for a Federal, State, or local public agency, or for a private nonprofit organization. However, a school may use part of its CWS allocation to provide jobs in private, for-profit organizations.

WORK ON CAMPUS

Students may be employed on campus at any type of postsecondary institution, including a proprietary school. Jobs at all schools must, to the maximum extent practical, be related to the student's educational program or vocational goals.

Work for the school itself or the school's contractors

A school other than a proprietary school may employ a student to work for the school itself, *including* certain services the school may contract for: food service, cleaning, maintenance, or security. Work for the school's contractors is acceptable as long as the contract specifies the number of students to be employed and specifies that the school selects the students and determines their pay rates. A proprietary school also may employ a student on-campus with certain restrictions (listed on the next page).

Work for a professor

At any *private or nonprofit school*, CWS students may be assigned to assist a professor if they are doing work the school would normally support under its own employment program. Having a student serve as a research assistant to a professor is appropriate, as long as the work is in line with the professor's official duties and is considered work for the school itself. However, in a *proprietary school*, a student may not assist an instructor, as instructional activities are not considered student services (work for a proprietary school is discussed on the next page).

Work in a branch campus overseas

Normally, employment in a foreign country is not permissible under the law. However, a school with a branch campus in a foreign country may employ students under CWS if the branch has its own facilities, administrative staff, and faculty. Students may also be employed by a U.S. Government facility such as an embassy or a military base. A student may not be employed for a nonprofit organization in a foreign country.

Work for a proprietary school

A proprietary school may employ a student to work for the school itself, but only in jobs that meet all of the following criteria—

- are on campus,
- provide *student* services (see the examples below),
- complement the student's educational program or vocational goals to the maximum extent possible, and
- do not involve soliciting potential students to enroll at the proprietary school.

Student services are services that are provided directly to students and related to the training or education provided. For example, jobs that provide student services may include, but are not limited to, jobs in a financial aid office or library, peer guidance counseling, and jobs providing social and health services or tutorial services. However, work in the admissions or recruitment area of a school would not be acceptable, as this employment could involve soliciting potential students. Maintenance (cleaning dorms) would not be acceptable. Some types of security work are allowed, such as escorting students to their cars at night, or escorting handicapped students, but work as a night watchman is not. In general, work that would primarily benefit the school rather than its students is not permissible. For example, a student could not work in the front reception area or in the business office of a school, as those jobs would not provide *student* services.

WORK OFF CAMPUS FOR NONPROFIT OR GOVERNMENT AGENCY

Work must be in the public interest

If a student is employed off campus by a Federal, State, or local public agency, or by a private nonprofit organization, the work performed *must be in the public interest*. Work in the public interest is performed for the national or community welfare, rather than for a particular interest or group. Although providing jobs related to the student's academic or vocational goals is encouraged, it is not required.

Local public agencies

Private nonprofit organizations

Local public agencies include city or county governmental offices, public schools, community-owned hospitals, public libraries, and community centers. A private nonprofit organization is one in which no part of the net earnings of an agency may benefit any private shareholder or individual. An organization must be incorporated as nonprofit under Federal or State law. A school classified as a tax-exempt organization by either the Federal or State Internal Revenue Service meets this requirement. Examples of private nonprofit organizations generally include hospitals, day care centers, halfway houses, crisis centers, and summer camps.

Work not in the public interest

Work is not "in the public interest" if—

- it primarily benefits the members of an organization that has membership limits, such as a credit union, a fraternal or religious order, or a cooperative;
- it involves any partisan or nonpartisan political activity or is associated with a faction in an election for public or party office;
- it is work for an elected official unless the official is responsible for the *regular* administration of Federal, State, or local government (see the next page);
- it is work as a political aide for any elected official;
- a student's political support or party affiliation is taken into account in hiring him or her; or
- it involves lobbying on the Federal, State, or local level.

Nature of work considered

However, in deciding whether work is in the public interest, schools must consider the nature of the work as well as the organization. For example, a student may be employed by a private nonprofit civic club if the student's work is for the club's community drive to aid handicapped children. If the student's work is confined to the internal interests of the club, such as a campaign for membership, the work would benefit a particular group and would not be in the public interest. As another example, a student may work for a private nonprofit membership organization, such as a golf club or swimming pool, if the general public may use the organization's facilities on the same basis as its members. If only members may use the facilities, CWS employment is not in the public interest.

Partisan or nonpartisan political activity

Political activity, whether partisan or nonpartisan, does not qualify as work in the public interest. For example, students could not work at voting polls—even if they only checked off the names of those who came to vote and did not pass out flyers supporting a particular candidate. Also, students could not work to support an independent candidate. Another example of nonpartisan political activity would be work for a city that might be sponsoring political debates.

Political aide

Working for an elected official as a political aide also does not qualify as work in the public interest. For example, a student could not represent a member of Congress on a committee. However, a student could be assigned to the staff of a standing committee of a legislative body or could work on a special committee, as long as the student would be selected on a nonpartisan basis and the work performed would be nonpartisan.

Work for elected official

Under certain circumstances, work for an elected official responsible for the *regular administration* of Federal, State, or local government may be considered to be in the public interest. "Regular administration" means the official is directly responsible for administering a particular function. Such a person would not create, abolish, or fund any programs, but would run them. Working for a sheriff would be acceptable, as would working for an elected judge (he or she has direct responsibility for the judicial system). As stated above, any *political* activity would not be acceptable—raising funds for the official's re-election, for example. A CWS position that involves lobbying at the Federal, State, or local level is not work in the public interest.

Lobbying

Work for U.S. Department of Education

CWS students are prohibited from working for the U.S. Department of Education due to the potential appearance of conflict of interest.

WORK OFF CAMPUS FOR PRIVATE FOR-PROFIT COMPANIES

Must be academically relevant

Up to 25% of CWS allocation

Schools also may enter into agreements with private for-profit companies to provide off-campus jobs for students; however, these jobs must be academically relevant to the student's program of study. (A student studying for a Business Administration degree could work in a bank handling customer transactions, for example.) A school may use up to 25 percent of its CWS allocation and reallocation for an award year to pay the wages of CWS students employed by private for-profit organizations, but the organizations may not hire CWS employees to replace regular employees.

Federal share limited to 50%

The Federal share of CWS wages for students employed by private for-profit organizations is limited to 50 percent for 1990-91 and subsequent years. The for-profit organization must contribute the remaining 50 percent, plus employer taxes (such as FICA, unemployment, and Workers' Compensation).

OFF-CAMPUS AGREEMENTS

Professional direction and staff

When a school enters into a written agreement—a contract—with any off-campus agency or company that employs CWS student, the school must make sure the organization is a reliable agency with professional direction and staff, and that the work to be performed is adequately supervised and consistent with the purpose of the CWS Program. (See Appendix B of the December 1, 1987 campus-based regulations for a model off-campus agreement. The sample need not be followed exactly but serves as a guide.)

Who is employer?

The agreement sets forth the CWS work conditions and establishes whether the school or the agency/company will be the employer for such purposes as hiring and firing, or paying the non-Federal share of the student's wages or the student's Social Security or Workers' Compensation benefits. The employer is generally considered to be the organization that will control the work of the CWS students—supervising them at the work site, regulating their hours of work, and generally ensuring that they perform their duties properly. However, the school is ultimately responsible for making sure payment for work performed is properly documented, and that each student's work is properly supervised.

Liability for on-the-job injuries

The agreement must also state which organization—the school or off-campus employer— will be responsible for any injuries the student receives on the job—the *employer* is *not* automatically liable. Federal CWS funds cannot be used to pay an injured student's hospital expenses.

Payroll responsibility

The agreement should also define whether the agency/company will assume payroll responsibility and bill the school for the Federal share of the students' wages, or whether the school will pay the students and bill the agency/company for its contribution. The school must make up any payments the agency/company does not make. It is the school's responsibility to ensure that CWS payments are properly documented, even if the agency/company does the payroll. To fulfill that responsibility, the school must keep copies of time sheets and payroll vouchers and keep evidence that the students were actually paid (usually a copy of the cancelled check or a receipt signed by the student).

The school is also responsible for ensuring that each student's work is properly supervised. School officials should periodically visit each organization with which they have an off-campus agreement to determine whether students are doing appropriate work and whether the terms of the agreement are being fulfilled.

Supervising and evaluating off-campus employment

In determining whether to continue an off-campus agreement, many schools have found it helpful to require that students submit a formal evaluation of their work experience at the end of the assignment. The school can also use the evaluation to help off-campus agencies improve their work programs.

Staff members of the off-campus organization must become acquainted with a school's financial aid and student employment programs to better understand the school's educational objectives. The school is responsible for supplying this information.

CWS EMPLOYMENT DURING PERIOD OF NONENROLLMENT

Student must enroll or re-enroll for next regular session

A student may be employed under CWS during a period of nonenrollment, such as a summer or equivalent vacation period or the full-time work period of a cooperative education program. To be eligible for this employment, a student must be planning to enroll (or to re-enroll) for the next regular session. The student's earnings during this period of nonenrollment (earnings minus taxes and job-related costs) must be used to pay his or her cost of attendance for the next period of enrollment.

Documenting student's intent to re-enroll

A student whose eligibiity for summer CWS employment was based on anticipated enrollment in the subsequent term may fail to register or may decide to attend another school. When a student fails to register for the subsequent term, the school that employed the student must be able to demonstrate that the student was eligible for employment and that the school had reason to believe the student intended to study at that school in the next term. At a minimum, the school that employed the student must keep a written record in its files showing that the student had accepted the school's offer of admittance in the upcoming session.

Study abroad

A student studying in an eligible program of study abroad is considered accepted for the subsequent term. Students may be employed during the summer preceding their study abroad if they will be continuously enrolled in their American school while abroad, and if their study is part of the American school's own program. In such cases, students may be employed in qualified positions in the U.S., at the American school's branch campus located in a foreign country, at a U.S. Government facility abroad, or in an American company abroad.

SECTION SIX:
USING CWS PROGRAM FUNDS

All Federal funds a school receives as part of its CWS allocation must be held in trust for the students who are the intended beneficiaries under the CWS Program, with the exception of funds the school receives for the administrative cost allowance and for certain activities under the Job Location and Development Programs. The funds may not be used for, or serve as collateral for, any other purpose.

FEDERAL SHARE LIMITATION

Generally limited to 70%

For the 1990-91 and subsequent award years, the Federal share of CWS compensation is—in most cases—limited to 70 percent. However, there are three exceptions:

100%—Historically Black Colleges

- The Department may approve a Federal share of *100 percent* of a student's wages if the school has been designated eligible under the Strengthening Institutions Program, the Strengthening Historically Black Colleges and Universities Program, or the Strengthening Historically Black Graduate Institutions Program, and if the student's work is performed for the school itself, for a governmental agency or for a private nonprofit organization. A school in one of these categories requests a waiver by following the instructions for the Electronic FISAP.

90%—CSL

- The Federal share of wages paid to students under the Community Service Learning (CSL) Program (discussed in Section Seven of this Chapter) may not exceed *90 percent*. However, this Federal share applies only to CSL expenditures of up to 10 percent of the school's CWS allocation and reallocation for an award year. Any CSL funds used in excess of 10 percent of the CWS allocation and reallocation must be matched at the normal Federal share.

50%—work for private for-profit organization

- For 1990-91 and subsequent years, the Federal share may not exceed *50 percent* for students employed off campus by private for-profit organizations (see "Work Off-Campus for Private For-Profit Companies" in Section Five of this Chapter: Types of Employment).

The Federal share may *not* be used to provide fringe benefits such as sick leave, vacation pay, and holiday pay, or employer's contributions to Social Security, Workers' Compensation, retirement, or any other welfare or insurance program.

The Federal share limitation does not affect Federal agencies that want to enter into an off-campus CWS job agreement. They may provide the required share of student compensation normally paid by off-campus agencies, plus any other employer costs agreed upon (except the non-allowable costs listed in the paragraph above).

The Federal share may be lower than 70 percent, if the school chooses to contribute more than the minimum required institutional share (see below). For example, if a school has a large demand for College Work-Study jobs from its various departments, it may contribute more than the usual 30 percent to allow for additional employment.

INSTITUTIONAL SHARE

1992-93—
at least 30%

For 1990-91 and subsequent award years, the institutional share of CWS wages must be at least 30 percent except in those cases discussed on the previous page, when the Federal share is more than 70 percent. A school may use any resource available to pay its share of CWS compensation except Federal funds allocated under the CWS Program. The school's share may come from its own funds, from outside funds (such as from an off-campus agency), or from both.

Noncash
institutional
share

The school also has the option of paying its share of a student's CWS wages in the form of a noncash contribution of services or equipment—for example, tuition and fees, room and board, and books and supplies. If the school's share for the award period is paid by noncash contributions, the share must be paid before the end of the student's final payroll period. The school must document all amounts claimed as noncash contributions. If a school has assessed a charge against a student who is employed under CWS (such as a parking fine or library fine), the school may not include forgiveness of such a charge as part of the school's noncash contribution for the student.

Any CWS employment agreement a school may have with an off-campus agency should specify what share of student compensation and what other costs the agency will pay. The agreement between the school and a for-profit organization *must* require the employer to pay the non-Federal share of student earnings. The agreement between the school and an employing agency or nonprofit organization *may* require the employer to pay—

Costs off-campus agency pays

- the non-Federal share of student earnings;
- required employer costs, such as the employer's share of Social Security or Workers' Compensation; and
- the school's administrative costs not already paid from its administrative cost allowance.

Excess funds from off-campus agency

If a school receives more money under an employment agreement with an off-campus agency than the sum of (1) required employer costs, (2) the school's non-Federal share, and (3) any share of administrative costs the employer agreed to pay, the school must handle the excess in one of three ways:

- use it to reduce the Federal share on a dollar-for-dollar basis;
- hold it in trust for off-campus employment the next award year; or
- refund it to the off-campus employer.

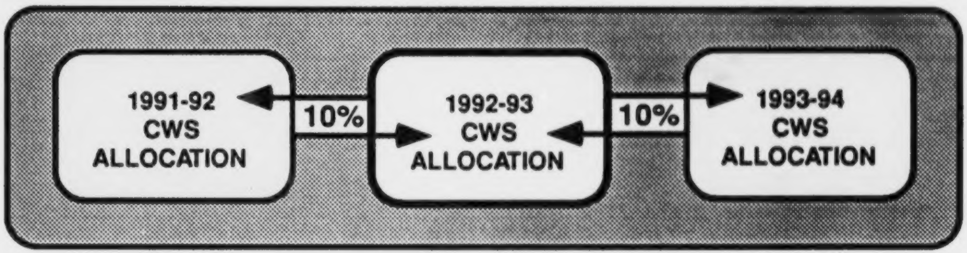
Funds from programs sponsored by Federal agencies (such as the National Science Foundation or the National Institutes of Health) may be used to pay the institutional share, as long as the programs have the authority to pay student wages. Schools should contact the Federal agency to see if it does have this authority.

As discussed earlier, with two exceptions, the Federal share of CWS wages cannot exceed 70 percent. If the school's non-cash contribution is less than the remaining 30 percent, the school must make up the difference in cash.

CARRY FORWARD/CARRY BACK

A school may spend up to 10 percent of its current year's CWS allocation (initial and supplemental) in the *following* award year (carry forward). If the school intends to do this, it must indicate it on the FISAP. For example, if a school intends to carry forward 10 percent of its CWS 1991-92 allocation to 1992-93, the school must report it in Part V of the Fiscal Operations Report for 1991-92 in the FISAP.

A school is also permitted to spend up to 10 percent of its current year's CWS allocation (initial and supplemental) for expenses incurred in the *previous* award year. The official allocation letter for a specific award period is the school's authority to exercise this option. Note that, before a school may spend its current year's allocation, it must spend any funds carried forward from the previous year.



LIMITATIONS ON USE OF FUNDS CARRIED FORWARD OR BACK

✓ 12/1/87 Regulations

As required by the December 1, 1987, regulations, beginning with the 1989-90 award year, schools are no longer permitted to add funds that are carried forward or back to the total CWS allocation for an award year, when determining the maximum percent of available funds that may be used in that award year for any of the purposes listed below. Therefore, for the 1992-93 award year, schools may not add any CWS funds carried forward into 1992-93 from 1991-92, or carried back into 1992-93 from 1993-94, to the 1992-93 total CWS allocation, when determining the maximum percent of available funds that may be used in 1992-93 for the following purposes:

- transfer of CWS funds to SEOG,
- Federal share of wages in private for-profit sector jobs,
- Community Service Learning (CSL) wages at a 90 percent Federal share, or
- Job Location and Development Programs (regular or CSL).

The maximum amount usable for each of the four purposes listed above is the appropriate percentage of the total of a school's 1992-93 original CWS allocation plus any supplemental 1992-93 CWS allocation.

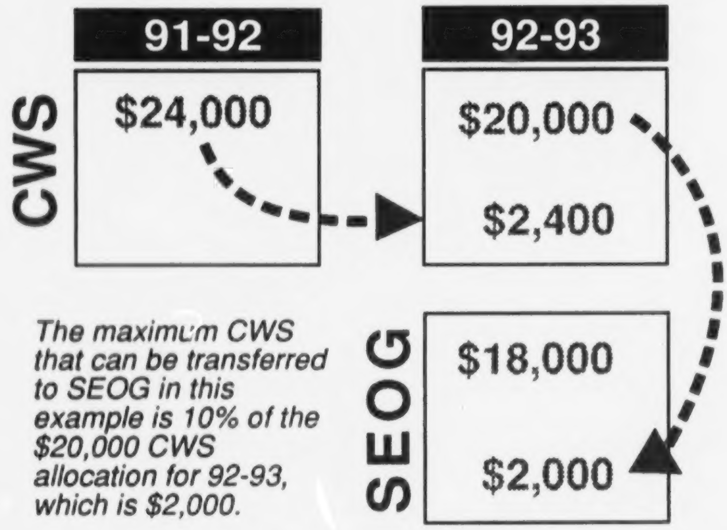
TRANSFER OF FUNDS TO THE SEOG PROGRAM

10% maximum to SEOG

In each award year, a school may transfer up to 10 percent of its total CWS allocation (initial and supplemental) to the SEOG Program. The Department of Education's permission is not required. Note that this total CWS allocation for an award year does not include CWS funds carried forward or carried back into the award year from other award years. A school must report any transfer of CWS funds to SEOG as an expenditure on its CWS Fiscal Operations Report and must return to the CWS account any funds transferred to SEOG that were not used by the end of the award year.

EXAMPLE:

Oasis Junior College has received a total (initial and supplemental) CWS allocation of $24,000 for the 1991-92 award year, and $20,000 for the 92-93 award year. The financial aid administrator has carried forward $2,400 of the 91-92 CWS allocation into the 92-93 award year, and now would like to transfer 10% of her 92-93 CWS allocation into the 92-93 SEOG account. What is the maximum amount that can be transferred?



The maximum CWS that can be transferred to SEOG in this example is 10% of the $20,000 CWS allocation for 92-93, which is $2,000.

SECTION SEVEN:
COMMUNITY SERVICE LEARNING

Community services

A school may use part of its CWS allocation to employ students in a Community Service Learning (CSL) Program designed to develop, improve, or expand community services for low-income persons, or to solve particular problems related to the needs of low-income persons (see the definitions of community services and a low-income individual below). The CSL Program is a program of student work that provides tangible community services for low-income individuals and provides students with work-learning opportunities related to their educational or career goals.

Community services are direct services, planning, or applied research activities. They may include activities related to such fields as health care, education, welfare, social services, public safety, crime prevention and control, transportation, recreation, housing and neighborhood improvement, rural development, and community improvement.

A "low-income individual" is one whose family's taxable income for the preceding calendar year did not exceed 150 percent of the poverty level established by the Bureau of the Census for that year. The family's taxable income includes income of the borrower, borrower's spouse and legal dependents. The latest poverty thresholds may be obtained from the Bureau of the Census by telephoning (301) 763-8578.

Federal share—up to 90%

A school is not limited in the amount of its CWS allocation that may be used to fund a CSL Program. The Federal share of CSLP wages paid to students—*90 percent*—is larger than the normal Federal share for other types of CWS jobs at most schools (70 percent for 1990-91 and subsequent award years).* However, a school may expend only an amount up to 10 percent of its CWS allocation plus 10 percent of any supplemental allocation at the 90 percent Federal share rate. The Federal share of any wages paid to students under CSLP in excess of 10 percent of the school's 1992-93 CWS allocation or reallocation must be matched at the normal 70 percent Federal share for CWS (unless the school is in a category qualifying for a 100 percent Federal share).

ACA—up to 10% of CSL expenditures

In addition to a school's regular CWS administrative cost allowance, a school is also entitled to an administrative cost allowance equal to 10 percent of its expenditures under the CSL Program (10 percent of the Federal and institutional share of CWS wages, minus taxes and job-related costs, paid to students employed under CSL). This portion of the administrative cost allowance must be taken only from the school's CWS allocation, and may be used to offset costs of administering the Pell Grant Program and campus-based programs, including the CSL Program. Administrative costs for the CSL Program may include the cost of—

- developing methods to assure the academic quality of a student's experience;
- ensuring student access to educational resources, expertise, and supervision necessary to achieve CSL objectives; and
- collaborating with public and private nonprofit agencies to plan and administer the CSL Program.

Schools do not include compensation paid to students under the CSL Program when determining their general administrative cost allowance for the SFA programs.

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* The Department may approve a Federal share of *100 percent* of a student's wages if the school has been designated eligible under the Strengthening Institutions Program, the Strengthening Historically Black Colleges and Universities Program, or the Strengthening Historically Black Graduate Institutions Program, and if the student's work is performed for the school itself, for a government agency or for a private nonprofit organization. A school in either of these categories requests a waiver by following the Electronic FISAP instructions in Part II, Section B.

SECTION EIGHT:
JOB LOCATION AND DEVELOPMENT

A school may also use part of its CWS allocation to develop off-campus jobs for students under two types of Job Location and Development (JLD) Programs: a "regular" JLD Program and a Community Services JLD Program (CS/JLD). Jobs located or developed under these programs may be for either a profit or nonprofit employer.

The off-campus employer, rather than the school, pays a student whose job was located or developed through either of the JLD programs. Federal JLD funds are used to pay the school's costs of establishing and administering the JLD programs; the funds are *not* used to pay students whose jobs were located or developed through the programs. A school is required, however, to keep a record of total earnings of students employed in these jobs in order to comply with the school's Participation Agreement with ED, which states that total wages of students (for whom jobs were located or developed) are expected to exceed the amount of Federal funds spent on the JLD program (the school reports in Part V, Section G, of the FISAP the Federal funds used for JLD and the total earnings of students for whom jobs were located or developed).

Financial need not a requirement for regular JLD jobs

The purpose of the "regular" JLD Program is to expand off-campus job opportunities for all students who want to work *regardless of their financial need* (unlike regular CWS jobs). Students employed in jobs developed by the regular JLD Program must be currently enrolled, but, as no Federal funds are used to pay their wages, they are *not* required to meet the other standard CWS student eligibility criteria, such as citizenship or satisfactory progress. A school may use up to 10 percent of its CWS allocation—or a maximum of $30,000, whichever is less—to locate off-campus jobs for students, regardless of their need.

For CS/JLD job, student must meet CWS eligibility criteria

The purpose of the Community Services Job Location and Development (CS/JLD) Program is to locate and develop community services jobs for students who meet CWS eligibility criteria. A school may use up to 10 percent of its CWS allocation—or a maximum of $20,000, whichever is less—to help locate and develop CS/JLD jobs. The school may use this allotment itself or in conjunction with other eligible schools. The school consults with local nonprofit, governmental, educational, and community-based organizations to locate and develop appropriate CS/JLD jobs.

Community services

“Community services” are those the school has identified by working with the local organizations mentioned above. CS/JLD jobs are designed to improve the quality of life for community residents, particularly low-income individuals, or to solve particular problems related to the needs of community residents. Appropriate jobs are those in fields such as health care, child care, literacy training, education (including tutorial services), housing and neighborhood improvement, rural development, and community improvement

Allowable costs

Allowable costs of carrying out the regular JLD and CS/JLD Programs include—

- staff salaries (and fringe benefits, if they are the same as those paid to other institutional employees in comparable positions and are not paid to a student employed through the CWS Program);
- travel expenses related to JLD activities only;
- printing and mailing costs for brochures about the JLD Programs;
- JLD telephone charges, including installation of a separate line for off-campus employers;
- JLD costs for supplies, equipment, and furniture;
- newspaper or other types of advertising that inform potential employers of the services JLD offers; and
- JLD workshops for students and employers.

Costs not allowed

Costs related to purchasing, constructing, or altering the facilities that house a JLD project are not allowable, nor are indirect administrative costs. One example of an indirect administrative cost is a portion of the salary of someone who is not directly involved in the Program—the JLD Director's supervisor, for example.

The Federal funds that a school sets aside from its CWS allocation to be used for its JLD and CS/JLD Programs (10 percent/$30,000 maximum for regular JLD or 10 percent/$20,000 maximum for CS/JLD) may be used to pay up to 80 percent of the allowable costs of these programs. The school must provide the remaining 20 percent of allowable costs, either in cash or in services. This requirement, unlike the institutional share requirement for CWS earnings, cannot be waived. The school must maintain records that indicate the amount and sources of its matching share.

A school that wants to participate in the regular JLD Program and/or the CS/JLD Program checks the appropriate box or boxes on its Program Participation Agreement when it first applies for CWS funds. If a school does not decide until later that it wants to participate, it should send a request to—

U.S. Department of Education
Division of Eligibility and Certification (DEC)
Institution and Lender Certification Branch
400 Maryland Avenue, S.W.
Room 3522, ROB-3
Washington, D.C. 20202

Program Participation Agreement

The school will receive a photocopy of its original Program Participation Agreement, initialed by a member of the DEC staff, authorizing the school's participation.

The Program Participation Agreement must provide assurances that—

- the school will administer the programs in accordance with the Higher Education Act of 1965, as amended, and current JLD and CS/JLD regulations;
- the school will submit to the Department of Education an annual report on the use of JLD funds and an evaluation of the Program's effectiveness (this requirement is satisfied simply by reporting wages earned under Section G of the CWS Electronic Fiscal Operations Report);
- the school will not develop jobs on campus under the regular JLD Program (this restriction does not aply to the CS/JLD Program);
- the Program will be used for jobs while students are in school and between periods of enrollment, but not for job placement upon graduation;

- the Program will not displace employees or impair existing service contracts;
- the school expects total student wages to exceed the amount of Federal funds spent on the Program; and
- if the school uses Federal funds to contract with an organization to administer the Program (see below), suitable performance standards will be part of that contract.

Multi-institutional agreements

A school that is participating in CWS may enter into a written agreement with other eligible schools to establish and operate a regular JLD and/or CS/JLD Program for its students. A school also may have an agreement *with a nonprofit organization* to operate a *CS/JLD* Program (but may not have an agreement to operate a *regular JLD* Program with a nonprofit organization). If the school has an agreement to operate a CS/JLD Program with a nonprofit organization, the organization must have professional direction and staff. Any multi-institutional agreement or agreement between a school and nonprofit organization must—

- designate the administrator of the program and
- specify the program's terms, conditions, and performance standards.

Each school that is part of the agreement is responsible for properly disbursing and accounting for the Federal funds it contributes under the agreement. Procedures and records requirements for JLD are the same as those for all campus-based programs (see Chapter Five, Section Four: Fiscal Procedures and Records Requirements). If the Department of Education terminates or suspends a school's eligibility to participate in the CWS Program, that action also applies to a JLD Program or CS/JLD Program.

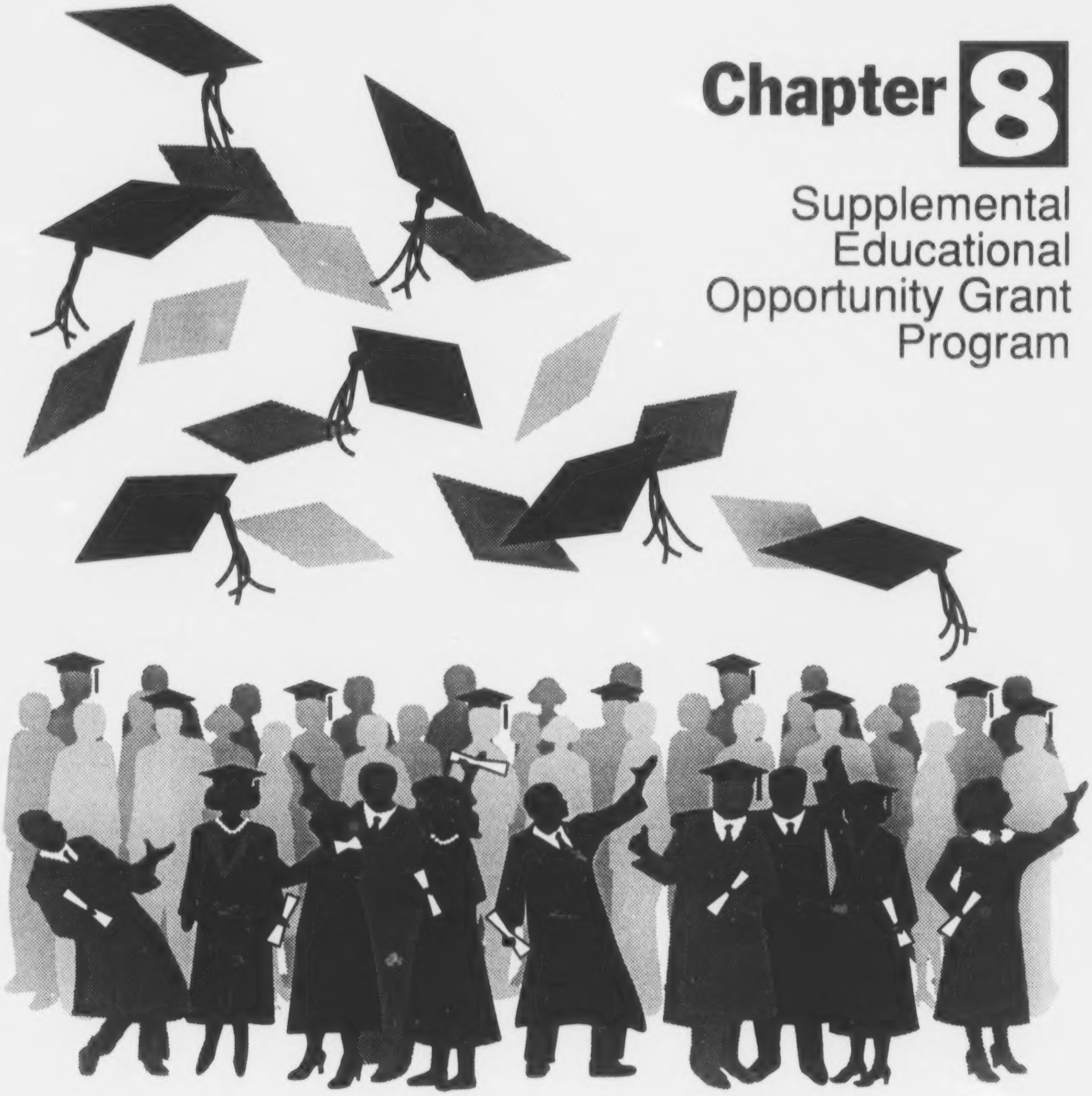
United States
Department of
Education

Office of
Student Financial
Assistance

The Federal Student Financial Aid Handbook, 1992-93

Chapter 8

Supplemental Educational Opportunity Grant Program



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INTRODUCTION

Purpose—for needy undergraduates

Exceptional financial need

The purpose of the Supplemental Educational Opportunity Grant (SEOG) Program is to provide grants to exceptionally needy students to help pay for their postsecondary education. When the SEOG Program was first established by the 1972 Amendments to the Higher Education Act of 1965, the stated purpose of the program was to provide grants to students with "exceptional financial need." Although this provision was not included in the Education Amendments of 1980, it was subsequently reinstated in the Higher Education Amendments of 1986—Public Law 99-498, Section 413C(c)(2). Therefore, when selecting SEOG recipients, schools are currently required to give priority to applicants with exceptional financial need, using the criteria discussed in this chapter.

SECTION ONE: SELECTING ELIGIBLE RECIPIENTS

To receive an SEOG, a student must meet the applicable eligibility requirements listed in Chapter Two, Section One: Student Eligibility. In addition, an eligible recipient must be an undergraduate student and must have financial need.

Undergraduate student definition

An undergraduate student is defined as a student enrolled in an undergraduate course of study at an institution of higher education who—

- has not earned a bachelor's degree or first professional degree; and
- is in an undergraduate course of study that usually does not exceed 4 academic years, or is enrolled in a 4 to 5 academic year program designed to lead to a first degree. A student enrolled in a program of any other length is considered an undergraduate student for only the first 4 academic years of that program.

SEOG for second undergraduate degree not permitted

Persons who have earned a bachelor's or first professional degree are not eligible to receive an SEOG to pursue a *second* undergraduate degree (refer to "Dear Colleague" letter CB-91-9, May 1991, page 4).

Selecting needy recipients

In determining the priority order in which students will be awarded SEOG funds in any given award year, a school must first, choose those students with exceptional financial need—that is, those with the lowest FCs who will also receive Pell Grants in that award year. We will refer to this group of students as the "first selection group."

If the school has SEOG funds remaining after awarding SEOG funds to all of its eligible Pell Grant recipients in order of lowest FCs, the school must next award SEOG funds to those eligible students with the lowest FCs who will not receive Pell Grants in that award year. We will refer to this group of students as the "second selection group."

Demonstrating Pell Grant eligibility

Students who "will also receive a Pell Grant in that award year" means students who have demonstrated Pell Grant eligibility for the same award year based upon—

(1) a SAR submitted to the school,

(2) a calculation from the central processor,

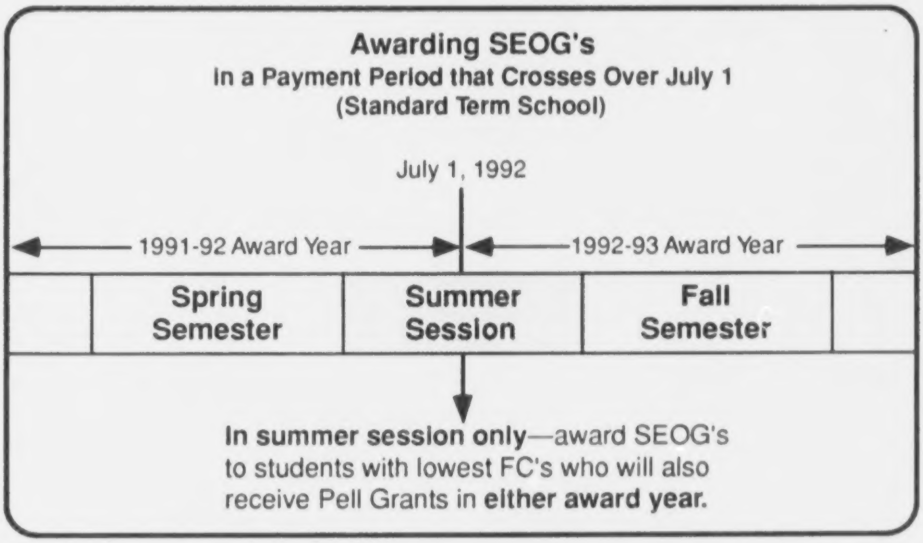
(3) a calculation from a certified need analysis servicer, or

(4) a manual calculation.

"Award year" is defined as the period of time from July 1 of one year through June 30 of the following year. The school must keep the appropriate Pell Grant eligibility information on file. If the school determines a student's Pell Grant eligibility by one of the above methods and awards an SEOG based on that determination, but the SEOG recipient does not actually receive a Pell Grant during the award year, the school is not required to recover the SEOG funds, as it relied on the demonstrated eligibility in good faith, .

Payment period that crosses July 1

In awarding SEOGs to students who are enrolled in a payment period that crosses over July 1 of any year, the school may (*for that payment period only*) include in the first selection group those students with the lowest FCs who will also receive Pell Grants in that *payment period*, regardless of the award year to which it is attributed. (Refer to "Dear Colleague" letter CB-91-8, distributed in May 1991.) "Payment period" is defined as a semester, trimester, or quarter; for a school not using those academic periods, it is the period between the beginning and the midpoint or between the midpoint and the end of an academic year.


Awarding SEOG's
In a Payment Period that Crosses Over July 1
(Standard Term School)

In summer session only—award SEOG's to students with lowest FC's who will also receive Pell Grants in **either award year.**

Make SEOGs reasonably available

A school must make SEOG funds reasonably available (to the extent of available funds) to all eligible students. This requirement is contained in Article VI of the Program Participation Agreement between the Department and the school. If a school's SEOG allocation is directly or indirectly based in part on the need of its part-time students, the school must make a reasonable proportion of its SEOG allocation available to those students, subject to the priority criteria described above. The Department considers the SEOG allocation of any school with part-time students to be "indirectly based in part" on the need of part-time students unless the school has never enrolled part-time students. A school cannot exclude less than half-time students from its definition of less than full-time students. However, as a student must be enrolled at least half time to receive a *Pell Grant*, students in the *first SEOG selection group* must also must be enrolled at least half time in order to meet the SEOG criterion of Pell Grant eligibility.

Wirtten selection procedures

Availability over the entire award year

A school must develop written selection procedures to ensure that SEOG recipients are selected on the basis of the lowest expected FC and Pell Grant priority requirements over the entire award year in accordance with the selection provisions found in Section 676.10. For an institution which enrolls students as often as monthly or weekly, SEOG funds can be reserved for use throughout that award year (on the basis of institutional experiences from previous periods) and selection practices can be applied in a manner which would assure that a reasonable consistency over the entire award year results.

Establishing categories of students for awarding SEOGs

The procedure of establishing categories of students to be considered for SEOG awards is within the institution's purview as a means of administering its packaging policies. Categories may be based on class standing, enrollment, program, date of application, or a combination of factors. By establishing these categories, the school would be attempting to ensure that the students in each category have an opportunity to be awarded SEOG funds. The percentage or dollar amount of funds assigned to each category is also within the school's purview; there is no requirement to make that amount proportional to the need of students in a particular category or even to the number of students in the category.

Categorization may not be used to exclude students

However, categorization may not be used to exclude certain students or groups of students from consideration. If the school knows that its funds are so limited as to effectively exclude from consideration year after year categories that come later in the sequence, the school may not be in compliance with the "reasonably available" provision. (This principal would not apply to a category made up of students whose applications are received after a specific deadline; there is no requirement to reserve funds for late applicants, although the school is not precluded from doing so.)

FC cutoffs or professional judgment not appropriate for selecting SEOG recipients

A school would not be in compliance with the HEA and the SEOG regulations were it to award SEOGs on a first-come, first-served basis or arbitrarily to set expected FC benchmarks (cutoffs) from below which it would select SEOG recipients. Such a practice might exclude otherwise eligible students form the selection process. Further more, professional judgment is not an appropriate means of attempting to resolve the indicated circumstance; professional judgment is applicable only to making an adjustment or adjustments to an expected FC or to a cost of attendance amount, not as a means to circumvent the SEOG selection policy.

SECTION TWO: PAYMENTS TO STUDENTS

Method of payment

A school may either disburse an SEOG directly to a student by check or may credit the student's account. The school must notify the student of the amount he or she can expect to receive, as well as how and when that amount will be paid. A school may not require a student to sign a "power of attorney" as a prerequisite to receiving his or her SEOG.

MINIMUM AND MAXIMUM AWARD

Awards—$100 to $4,000

A school may award an SEOG in an amount the school determines a student needs to continue his or her studies for an academic year. However, an SEOG may not be less than $100 or more than $4,000 for a full academic year. Awards for less than an academic year may be reduced proportionately.

INITIAL DISBURSEMENT

The school may not disburse funds for a payment period until the student registers for that period. (Correspondence students must submit their first completed lessons before receiving funds.) The earliest a school may *directly pay* the registered student is *10 days* before the first day of classes of a payment period. The earliest a school may *credit the student's account* is *3 weeks* before the first day of classes of a payment period. If a student withdraws (officially or unofficially) or is expelled before the first day of classes, the school must return any funds to the SEOG account that were paid to the student.

As stated in Chapter Five, a student who drops out *before* receiving his or her SEOG (or Perkins Loan) cannot receive any payment for the payment period. This is in contrast to the Pell Grant Program, which allows the school to pay the student for expenses up to the day the student drops out or becomes ineligible for payment. If a student drops out *after* receiving his or her SEOG, but before the end of the payment period, the school determines the amount of any refund and repayment as discussed in Chapter Three, Section Four, "Refunds and Repayments."

FREQUENCY OF DISBURSEMENTS

Standard term schools—once a payment period

If a school is awarding an SEOG for a full academic year and the school uses standard academic terms, it must advance a portion of the grant during each payment period. (Generally, the total SEOG award is divided by the number of payment periods the student will attend.) In schools with traditional calendars, payment periods are usually defined as semesters, trimesters, or quarters.

Non-standard term schools—twice in school year

If the school does not use standard academic terms, it must advance funds at least twice during the academic year—once at the beginning and once at the midpoint. Normally, no more than half the award may be advanced before the midpoint. If the student attends less than an academic year, the award is divided by the number of payment periods the student will attend during the academic year. A school may advance funds *within* a payment period in whatever installments it determines will best meet the student's needs.

However, if the total amount awarded a student under the SEOG Program is less than $501 for an academic year, only one payment is necessary.

UNEQUAL DISBURSEMENTS

As is true for the Perkins Loan Program, if the student incurs uneven costs or receives uneven resources during the year and needs extra funds in a particular payment period, a school may make unequal disbursements. For a complete discussion of uneven costs and unequal disbursements, see "Disbursing Funds" in Chapter Six, Section Two: Making and Disbursing Loans.

SEOG OVERPAYMENTS

Steps school must take in case of overpayment

If the school makes an SEOG overpayment for which it is not liable, the school must promptly try to recover the overpayment by sending a written notice to the student requesting payment in full. If the student does not repay the funds as requested, the school must make a second attempt to recover the overpayment, within 30 days of sending the first notice. If a student objects that the school has made a mistake in determining the overaward, the school must consider any information provided by the student and determine whether the objection is warranted before referring the overpayment to ED. If the school fails to collect the overpayment after taking these steps, *and* if the Federal share of the overpayment is *$25 or more*, the school must notify ED of the overpayment within 90 days of the overpayment, identifying the Federal share of the overpayment, as well as the student's name, most recent address, telephone number, and other relevant information. After providing this information to ED, the school is not required to make any further attempt to collect the overpayment. If the school is unable to collect the overpayment *and* the Federal share is *less than $25*, the school is not required to make any further attempt to collect the overpayment. A student who fails to repay overawarded SEOG funds is ineligible for further SFA funds.

SECTION THREE: PROGRAM FUNDING

As discussed in Chapter Five, the formulas the Department uses to allocate or reallocate SEOG funds to schools are found in Part C, Section 413D, of the Higher Education Act of 1965, as amended. Because the statutory language describes the allocation process in detail, those procedures are not repeated in the December 1, 1987 regulations. Funds are allocated directly to schools according to the statutory formulas, which do not provide for appeals. Schools receive their disbursements in periodic installments, either in advance or as reimbursements.

FEDERAL SHARE

Federal share is 85% for 1992-93

Prior to the 1989-90 award year, SEOG awards made by a school were entirely funded by the school's Federal SEOG allocation. However, the Federal share for SEOG was reduced beginning with the 1989-90 award year. For 1989-90, the Federal share was reduced to 95 percent of the SEOG awards made by a school; for 1990-91, it was 90 percent; for 1991-92, 1992-93, and subsequent years, it is 85 percent. However, the Department, beginning in 1989-90, approved a Federal SEOG share of *100 percent* if a school is eligible under the Strengthening Institutions Program or the Strengthening Historically Black Colleges and Universities Program. A school in either of these categories requests a waiver by following the Electronic FISAP instructions in Part II, Section B.

INSTITUTIONAL SHARE

Sources of non-Federal share

The non-Federal share of SEOG awards must be made from the school's own resources. These resources may include:

- institutional grants and scholarships,
- waivers of tuition or fees,
- State scholarships, and
- funds from a foundation or other charitable organization.

Institutional share may include all State scholarships except SSIG

The Department has determined that all State scholarships and grants, except for State Student Incentive Grants (SSIGs), are eligible funds for inclusion in the non-Federal share of SEOG awards. SSIG awards, for this SEOG non-Federal share purpose, are defined as the Federal SSIG allocation plus the State required dollar-for-dollar matching amount. The remaining State grants are considered non-SSIGs. "Dear Colleague" letter CB-91-15, issued in August 1991, provided a chart of percentages to indicate the portion of State scholarships in each State that could be used to provide the non-Federal share of SEOG awards for the 1991-92 award year. A similar chart for the 1992-93 award year will be issued in a future "Dear Colleague" letter.

The 1992-93 institutional share of 15 percent (unless the school qualifies for a waiver) may be met by one of three methods. In the discussion of the three methods that follows, it should be noted that, in order to meet the definition of an "SEOG recipient," some portion of the grant awarded a student must have come from the SEOG Federal dollars. Also, at any point in time during the award period, when the SEOG awards are disbursed, the required match must have been accomplished. That is, the school's own resources (which are the non-Federal share) must have been disbursed prior to or at the time the Federal dollars are disbursed. However, it is important to note that outside resources (i.e., State scholarships and foundation or other charitable organization funds) can be used to match SEOG awards, even though funds are received at a later date, provided that the school has written information on an award from the non-institutional agency or organization to the student involved. The written information must be kept on file at the school.

Three methods of meeting institutional share

The three methods by which a school may meet its institutional share are:

(1) Individual SEOG recipient basis—the school would provide its share to an individual SEOG recipient together with the Federal

share; i.e., each student's total SEOG award would consist of 15 percent institutional resources and 85 percent Federal dollars for the 1992-93 award period.

(2) Aggregate basis—the school would ensure that the sum of all funds awarded to SEOG recipients in the 1992-93 award year would consist of 85 percent Federal SEOG funds and 15 percent institutional resources. For example, if a school awards a total of $50,000 to SEOG recipients in 1992-93, it would have to ensure that $42,500 was Federal SEOG funds and $7,500 was institutional resources; even if there were 100 SEOG recipients, the entire $7,500 institutional resource requirement could be met by the awarding of a total of $7,500 in institutional resources to two SEOG recipients.

(3) Fund-specific basis—the school could establish an "SEOG fund" into which it deposits Federal SEOG funds and the required 15 percent institutional share. Awards to SEOG recipients would then be made from the "fund."

ADMINISTRATIVE COST ALLOWANCE

When a school calculates its administrative cost allowance for 1992-93, the school is to include in its calculation the full amount of its SEOG awards—both the 85 percent Federal share and the required 15 percent institutional share. If a school has been granted by the Department a waiver of its required institutional share under the Strengthening Institutions Program, that school's administrative cost allowance may be calculated only on the full Federal portion. For additional information about the administrative cost allowance, refer to Chapter Five, Section Five.

TRANSFER OF FUNDS TO CWS

A school may transfer up to 10 percent of its SEOG allocation for an award year (initial and supplemental) to the College Work-Study Program. Any funds that are transferred must be used in accordance with the requirements of the CWS Program. A school must report any transfer of SEOG funds as an expenditure on its SEOG Electronic FISAP and must return to the SEOG account any funds transferred to CWS that were not spent by the end of the award year.

United States
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The Federal Student Financial Aid Handbook, 1992-93

Chapter 9

State Grant Programs

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INTRODUCTION

This chapter covers the State Student Incentive Grant (SSIG) Program, the Robert C. Byrd Honors Scholarship Program, the Paul Douglas Teacher Scholarship Program, and the National Science Scholars Program (NSSP). The SSIG and Byrd Programs are authorized under Title IV of the Higher Education Act of 1965, as amended (HEA); the Douglas Program is authorized under Title V of the HEA. The NSSP is authorized under Title VI, Part A, of the "Excellence in Mathematics, Science and Engineering Education Act of 1990."

How the programs are funded

Students apply for financial assistance from these four programs through the appropriate educational assistance agency in their States. Under the SSIG Program, the Secretary of Education provides funds to States to establish a State grant program to provide assistance to students who demonstrate substantial financial need, and each State matches the Federal funds on at least a 50-50 ratio. Under the Byrd Program, the Secretary makes grants to States to enable those States to award scholarships to high school seniors who have demonstrated outstanding academic achievement and who show promise of continued academic achievement. Under the Douglas Program, the Secretary makes grants to States to enable those States to award scholarships to outstanding individuals who demonstrate an interest in teaching. Under the NSSP, the Secretary provides funds directly to the school that the scholar attends on behalf of that scholar.

State agency listing

Students who have any questions on eligibility and award procedures on any of these programs should be directed to the appropriate State agency that administers the program in that student's State. A complete list of these agencies is included in Section Five of this chapter.

SECTION ONE: SSIG PROGRAM

Purpose of program

The State Student Incentive Grant (SSIG) Program assists States in providing grants to eligible students who attend postsecondary schools and have substantial financial need. Each State may use a percentage of its SSIG funding to provide work-study assistance through community service-learning job programs. (This work-study assistance is explained in more detail beginning on page 4 of this section.)

These State programs carry a variety of names that do not necessarily include the words "student incentive grants" as part of the program titles. The SSIG Program provides funds to the 50 States, the District of Columbia, Puerto Rico, the Virgin Islands, American Samoa, Guam, the Northern Mariana Islands, and the Trust Territory of the Pacific Islands (the Republic of Palau).

State funding ratios

SSIG operations vary from State to State, according to the size and maturity of grant programs managed by the individual States. During the 1990-91 academic year, the Federal portion equaled 3.5 percent of the total payout (SSIG plus State portion) for need-based State grants ($59.2) million for SSIG, compared to $1.69 billion in total payout). The ratios of Federal to State funds range from 5 percent or less in Connecticut, Illinois, Indiana, Iowa, Massachusetts, Michigan, Minnesota, New Jersey, New York, Pennsylvania, Rhode Island, South Carolina, Vermont, Wisconsin, and Puerto Rico, to over 40 percent in 7 States. (This information was published in the 22nd Annual Survey of the *National Association of State Scholarship and Grant Programs.*)

Because of the variations in State programs, student and school inquiries about SSIG and other State grant, scholarship, and work-study assistance should be directed to the State agencies listed in Section Five of this chapter, instead of to the Department of Education.

To help financial aid administrators understand the variety of State practices, this section describes some of the conditions and regulations that affect State program operations.

MATCHING REQUIREMENTS

States receive annual SSIG allotments (formula grants) from the Department of Education based on each State's eligible postsecondary education enrollments. The Federal allotments must be matched by funds appropriated by the State, and this matching must represent an increase in the State-appropriated grant and work-study expenditure over the amount spent during an established base year (defined as the second year before the State began participating in the SSIG Program). Also, the State must maintain its SSIG Program expenditures at a level **not less than** the average for the preceding three fiscal years, or at the level of the average per full-time equivalent student for those years. SSIG Program expenditures used in matching the Federal allotment must be the net amount of expenditures and should not include any refund or return amounts that were not actually expended.

Matching must be in auditable dollar amounts; tuition waivers or remissions may be considered grants only if money actually changes hands from State to school to student, and if this transfer can be documented as a cash transaction in the appropriate records at each level.

Community Service-Learning Job Program

Each award year, a State may use up to 20 percent of its allotment for a community service-learning job program. The student must receive compensation for work, and not a grant. The job program must be administered by postsecondary schools in the State, and each student employed under the program must be employed in work in the public interest; the employer may be a school, or a Federal, State, or local public agency or private non-profit organization under an arrangement between the school and the agency or organization.

Schools, in consultation with local non-profit, governmental, and community-based organizations, identify jobs in direct service, planning, or applied research, that are designed to improve the quality of life for residents (particularly low-income residents) of the community served.

Each community service-learning job must:

☐ provide participating students community service-learning jobs related to their educational or vocational programs or goals;

☐ be governed by conditions of employment that are considered appropriate and reasonable, based on such factors as type of work performed, geographic region, and proficiency of the employee;

☐ pay at least the current Federal minimum wage as mandated by the Fair Labor Standards Act of 1938 (but may not use the subminimum wage);

☐ not result in the displacement of employed workers or impair existing contracts for service; and

☐ not involve the construction, operation, or maintenance of any part of a facility used or to be used for religious worship or sectarian instruction.

Funding reallotment

Basic SSIG allotments not used by one State are reallotted to other qualified States. Within the constraints of Federal appropriations, States are free to schedule their own funding cycles for students, but funds may not be carried over from one fiscal year to the next. However, they may be used for summer terms, provided they are obligated within the program year (July 1 through June 30) for which they were appropriated.

ADMINISTRATIVE PATTERNS

There are three ways in which a State may choose to administer its program: it may choose to use a centralized administrative pattern, a decentralized administrative pattern, or a combination of both. Whichever method is used, a State must use all Federal funds and State matching funds for student awards. (A State cannot use either Federal funds or its State matching funds to help defray administrative costs.)

Centralized administration

Most States, particularly those with well-established State student assistance programs, use a centralized administrative pattern. That is where a single State agency receives and processes student applications, notifies students of awards, verifies attendance, makes disbursements, and keeps complete records on all student awards.

Decentralized administration

In other States, particularly those with relatively new State programs, the designated State agency delegates certain functions to participating schools. In these cases, funds available through the State agency are generally sub-allocated to eligible schools on the basis of enrollment or need formulas. The schools recommend SSIG recipients to the State agency, which approves individual awards from these fund allotments.

Location of student files

In the centrally administered State programs, actual student files are located in the State agency. In the decentralized form of State administration, where schools process much of the student information, the financial aid administrator gives the State agency the information needed for formal approval of individual student awards. In either case, to monitor the use of SSIG funds, student files at schools are examined to verify that recipients met all eligibility criteria and received the correct award amount.

SCHOOL PARTICIPATION

Within the limits of Federal statutes and regulations, States determine eligibility standards in terms of their own fiscal, constitutional, and statutory restraints. See Chapter Three on institutional eligibility for details about the Federal limits placed on school participation.

Schools that are licensed by their State agency as clock-hour institutions must use clock hours to determine a student's eligibility for SFA funds. For further information, see Section One of Chapter Three.

All nonprofit institutions of higher education in a State are eligible to participate, except when participation violates the State's constitution or a State law enacted before October 1, 1978. While States are not required to include proprietary (for profit) schools in their State programs, 33 States currently make SSIG awards available to students attending such schools.

Other factors affecting participation

School participation may also be affected by some States sub-allocating available SSIG funds to the various types of schools on the basis of enrollment, need, the availability of other non-SSIG aid, and other relevant criteria. In such instances, money not claimed for student awards at one school may be reclaimed by the State and reassigned to other schools.

STUDENT ELIGIBILITY

Student eligibility to receive aid from the SSIG Program differs from State to State according to constitutional, statutory, or policy restrictions. (Some States have legislated formulas for determining student eligibility and the amount of assistance given to individual students.) However, to be eligible for assistance under the SSIG Program, all students must meet the relevant eligibility requirements contained in Subpart A of the General Provisions regulations (34 CFR Part 668.7) and must demonstrate substantial financial need as determined in accordance with the States' criteria as approved by the Secretary. The standards that States may use to determine need are discussed in more detail in the subsection on Student Application Procedures and Awards beginning on page 7 of this section.

The relevant eligibility requirements of Subpart A are summarized briefly below. These requirements are covered in greater detail in Section One of Chapter Two of this *Handbook.*

General eligibility requirements to receive SFA funds

In general, the student must:

☐ be either a U.S. citizen or an eligible non-citizen;

☐ be enrolled as a regular student in an eligible program at an eligible school;

☐ have a high school diploma or its recognized equivalent (or be above the age of compulsory school attendance in the State where the school is located and have passed an independently administered test approved by the U.S. Department of Education);

☐ be making satisfactory academic progress in his or her course of study; and

☐ file a Statement of Educational Purpose/Certification Statement on Refunds and Default, a Statement of Registration Status, and a Statement of Updated Information.

A student is not eligible for SFA funds if he or she:

☐ is enrolled in an elementary or secondary school,

☐ has borrowed in excess of the annual or aggregate limits for the SFA loan programs, or

☐ is in default on a student loan or owes a refund on a student grant from the SFA programs.

Eliminating SSIG overpayments

If, however, a student owes a refund on an SSIG overpayment, that student would still be eligible to receive further SFA funds if he or she meets all other eligibility requirements and if the school can eliminate the overpayment by adjusting financial aid payments (other than Pell Grants) in the same award period in which the overpayment occurred.

Other factors that determine whether a student is eligible for an SSIG award include the State's definition of substantial financial need, the method of determining maximum awards, and the costs that can be covered. Some States limit awards to the cost for tuition and fees; others include allowances for room, board, and other costs. Some have allowances for commuters. Many State grant programs exclude part-time students and those who attend schools outside the State. Some States have reciprocal arrangements with neighboring States, so that students may receive SSIG funds from their home State even though they are enrolled in a school in another State.

STUDENT APPLICATION PROCEDURES AND AWARDS

Students apply to the State agency either directly or indirectly through the schools. Every award requires the official State agency's formal approval, based on a determination of need. (Section Five of this chapter contains a listing of these State agencies.)

Maximum student awards

The maximum award that a student may receive is $2,500 per academic year. Most States limit SSIG awards to undergraduates attending at least half-time. However, at each State's option, graduate and less-than-half-time students may also be eligible to receive SSIG awards. The maximum award is reduced proportionately for students who attend part-time.

States may determine whether to make individual SSIG awards that vary according to student need or to give a set amount to all students who meet the established need criteria.

Determining substantial need

Student recipients are selected annually on the basis of substantial need, according to criteria established by the State and approved by the Department of Education. A State may define need in terms of income, expected family contribution, or relative need, as measured by cost of attendance minus available resources. Regardless of which need analysis system the State selects, the designated State agency is responsible for final approval of individual student recipients, thus allowing each State to develop consistent methods in awarding aid to candidates throughout the State.

Need analysis systems

Most States measure need using a single need analysis system for all applicants (predominantly the Congressional Methodology [CM]). However, in decentralized programs, where schools recommend student candidates for awards subject to the designated State agency's approval, student applications may be processed according to the different need analysis systems used by the various schools. In any event, the designated State agency has final authority for selecting recipients who meet the need criteria under standards established for the State-wide program.

State and school records of student recipients

State agencies responsible for administering SSIG funds must be able to document their decisions and disbursements from their own central records, from school records, or from both. Variations of student/school rosters are often sent back and forth between the State agency and the schools to verify attendance, provide information related to student need, document disbursement of funds to students or to student accounts, guard against overawards, and help provide required records and reports.

FISCAL AND REPORTING RELATIONSHIPS BETWEEN SCHOOLS AND THE STATE AGENCY

In general, fiscal and reporting relationships between participating schools and the State agency vary according to whether the State's programs are administered according to a centralized or decentralized pattern, or a combination of these two patterns. In any case, the State agency must be held accountable for the disbursement of Federal funds and for making the required reports to the Department of Education. States are given considerable leeway in the standards used to demonstrate fiscal responsibility for the SSIG Program. However, participating schools must meet the Federal standards of fiscal responsibility described in Chapter Three of this *Handbook*.

At a minimum, even in the most centralized administrative pattern, schools must supply assurances regarding student academic progress, the status of grant refunds, and the status of loan defaults. Schools must also document student acknowledgment of awards if funds are paid to the school on behalf of the recipient, and cooperate in packaging aid to avoid overawards.

In decentralized systems, where the State agency depends on the school to help screen applicants, the school's records must also supply need analysis documentation to justify formal approval of individual awards by the official State agency.

Individual student awards are subject to approval by the designated State agency. Schools may not transfer awards from one student to another without that agency's approval. Schools and State agencies should maintain regular communication so that any funds that become available later in the year will be used for qualified students.

Overawards

All funds (Federal plus State) recovered from overawards should be reissued to other qualified students during the applicable award period unless records for the period have been closed. If these funds are not reissued to qualified students, the State must return the recovered Federal portion to the Department of Education.

Reports

The State agency requires certain school reports to document the disbursement of Federal funds to student recipients. The school reports also provide information needed to improve efficiency in the operation of State programs, and to provide data for State budgets and for annual reports to the Department of Education.

The actual form and content of school reports will vary from State to State, depending upon, among other factors, the size and maturity of the State programs. There are no standard formats or channels for these school reports. For example, information about recipients by income level may come either from the central office records or from the schools. Communication may follow established procedures or may be developed through cooperative efforts of State and school representatives.

Student and school inquiries

Specific information on State student financial assistance policy, student and school eligibility, and grants to students attending out-of-State schools is available from the SSIG State agency official contacts listed in Section Five of this chapter.

SECTION TWO: ROBERT C. BYRD HONORS SCHOLARSHIP PROGRAM

Purpose of program

The Robert C. Byrd Honors Scholarship Program is authorized under Title IV, Part A, Subpart 6 of the Higher Education Act of 1965, as amended. Under this program, the Secretary makes available, through grants to the States, scholarships to exceptionally able students for study at postsecondary schools in order to recognize and promote student excellence and achievement. Student recipients under this program are known as Byrd Scholars.

SELECTION OF SCHOLARS

To apply for a scholarship, an individual follows the application procedures established by the State Educational Agency (SEA) in the State in which the individual resides. The SEA is the State board of education or other agency in that State, which is primarily responsible for the supervision of public elementary and secondary schools. The SEA establishes procedures for selecting the scholars after consulting with school administrators, school boards, teachers, counselors, and parents. Before each State's selection criteria and application procedures are implemented, they are reviewed and approved by the Department. Those students who are selected to receive scholarship assistance under the Byrd Program will receive one scholarship in the amount of $1,500 to be used for the first academic year of study.

Each SEA designs the selection criteria and procedures to ensure that it selects scholars for each award period for which funds are received in the following manner—

- ☐ For each State, no fewer than 10 scholars from among the residents of each Congressional district of that State are selected.

☐ For the District of Columbia and the Commonwealth of Puerto Rico, no fewer than 10 scholars from among that jurisdiction's respective resident students are selected.

☐ For all States, the District of Columbia, and Puerto Rico, enough scholars are selected to award all funds allotted for scholarships for each award period.

In addition, the SEA—

☐ selects scholars solely on the basis of demonstrated outstanding academic achievement and promise of continued achievement;

☐ selects scholars in such a way that each part of the State, the District of Columbia, and Puerto Rico is represented fairly;

☐ selects scholars without regard to—

1) whether the secondary schools they attend are within or outside the scholars' Congressional district or State of residency;

2) whether the postsecondary schools they plan to attend are public or private or are within or outside the scholars' Congressional districts or States of residency;

3) the scholars' sex, race, creed, handicapping condition, or economic background; or

4) the scholars' educational expenses or financial need.

Note: To participate in the Byrd Program, a school must be a public or private nonprofit institution of higher education as defined in Chapter Three, Section One of this *Handbook*.

Under current program regulations, a student who is attending a secondary school outside of his or her State of residency applies for a Byrd Scholarship through the SEA of his or her State of residency and is counted in the appropriate Congressional district as indicated by his or her residency documentation. This would include a student who was attending a Department of Defense overseas school or an out-of-State boarding school.

ELIGIBILITY TO RECEIVE SCHOLARSHIP

To receive a Byrd Scholarship each student must follow the criteria listed at the top of the next page during the same secondary academic year in which the scholarship is to be awarded.

The student must—

☐ graduate from a public or private secondary school or receive the recognized equivalent of a high school diploma as recognized by the State in which the student resides, and

☐ be accepted for enrollment at an institution of higher education.

Note: The "recognized equivalent of a high school diploma" means—

1) a General Education Development (GED) Certificate, or

2) a State certificate received by a student after the student has passed a State-authorized examination that the State recognizes as the equivalent of a high school diploma.

In addition to the above two requirements, the scholar must—

☐ be a resident of the State to which he or she is applying for a scholarship;

☐ be a U.S. citizen or national, or provide evidence from the U.S. Immigration and Naturalization Service that he or she is—

a) a permanent resident of the United States; or

b) in the United States for other than a temporary purpose with the intention of becoming a citizen or permanent resident;

☐ file with the school he or she plans to attend, or is attending, a Statement of Selective Service Registration Status if required by the school in accordance with the Student Assistance General Provisions regulations (34 CFR Part 668); and

☐ pursue a course of study at an institution of higher education.

Note: A scholar is deemed to be "pursuing a course of study" if he or she is enrolled as at least a half-time student, as determined by the school he or she is attending under standards applicable to all students enrolled in that scholar's course of study.

Postponing enrollment

A scholar who has been accepted for enrollment at a postsecondary school may (without forfeiting his or her scholarship) postpone his or her enrollment at the school for up to a period of one year beginning on the date the scholar otherwise would have enrolled in the school after the State education agency awarded him or her the scholarship.

Each State agency has the option to implement such a postponement policy; however, not all States do this. If it does, it must document the scholar's subsequent enrollment.

Note that a Byrd Scholar may not use his or her scholarship to attend a foreign school. The scholar must attend a school that is located in one of the States of the Union, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, the Northern Mariana Islands, American Samoa, or the Trust Territory of the Pacific Islands (Palau).

AMOUNT ALLOTTED TO STATES FOR PAYMENT TO SCHOLARS

The Secretary allots to each participating SEA $1,500 multiplied by the number of scholarships assigned to that State. The Secretary uses the formula illustrated below to assign Byrd scholarships to each participating State:

FORMULA

$$\frac{\text{Number of scholarships made to the individual State}}{\text{Number of scholarships made to all States}} = \frac{\text{That individual State's School-aged population}}{\text{All States' school-aged population}}$$

The population figures used to calculate the allotment of funds are determined from the most recently available data from the United States Census Bureau.

PACKAGING OF BYRD SCHOLARSHIP WITH OTHER SFA FUNDS

A student's Byrd Scholarship of $1,500 may not be reduced by either the State agency or the financial aid administrator. If the Byrd Scholarship, when combined with other SFA funds, resources, and the student's expected family contribution (EFC), exceeds the student's cost of attendance, the Scholarship must then be used as a substitute for the student's EFC. If any overaward results after substituting the EFC with the Byrd Scholarship, the financial aid administrator must follow the overaward provisions in the campus-based, Stafford, and SLS program regulations to adjust any campus-based awards the student received. You should also note that any undelivered Stafford or SLS proceeds must first be returned to the lender before adjusting or cancelling a student's undisbursed campus-based grants or loans.

Return of undelivered Stafford or SLS

SECTION THREE: PAUL DOUGLAS TEACHER SCHOLARSHIP PROGRAM

Purpose of program

The Paul Douglas Teacher Scholarship Program is authorized under Title V, Part D of the Higher Education Act of 1965, as amended. It is a Federally funded program that encourages outstanding high school graduates to pursue teaching careers at the preschool, elementary school, or secondary school level.

Application procedures

Students apply for Douglas Scholarships through the designated State agency in the State in which they reside. The agency that administers the Paul Douglas Scholarship Program may be the same agency that administers the SSIG Program or the guaranteed loan programs (Stafford, PLUS, and SLS). A complete list of the agencies that administer the State programs that are covered in this chapter is contained in Section Five of the chapter.

BASIC ELIGIBILITY REQUIREMENTS

Receiving a Douglas Scholarship is basically a two-step process. First, the student must meet basic eligibility requirements to be considered for selection. The student must—

- ☐ be a U.S. citizen or national, or provide evidence from the Immigration and Naturalization Service that he or she is a permanent resident of the U.S. or is in the U.S. for other than a temporary purpose with the intention of becoming a U.S. citizen or permanent resident; or be a permanent resident of the Trust Territory of the Pacific Islands (which includes the Republic of Palau);
- ☐ have graduated from high school or be scheduled to graduate from high school within 3 months of the date of the award;

☐ rank in the top 10 percent of his or her graduating class.

Note: If the individual does not or did not attend high school, then in lieu of items 2 and 3 above, that individual would have to both: a) have received a certificate of high school equivalency for successfully completing the Tests of General Education Development (GED), and b) have received GED test scores that are recognized by the State as the equivalent to ranking in the top 10 percent of the high school graduates either in the individual's State or nationally, in the academic year for which the eligibility determination is being made.

Determining the cutoff point

To determine the cutoff point for the top 10 percent of the class, the student population (number of students in the class) is multiplied by .1 (10 percent). Students who fall above the cutoff point are in the top 10 percent. In cases where the total number of students in the class is not a multiple of 10, the cutoff point will not be a whole number. In such cases, the next highest whole number is counted in the top 10 percent. The following example illustrates how the formula works:

FORMULA

Number in Class X .1 = Top 10 Percent

374 X .1 = 37.4 (rounded up to 38)

In the above example, the top 37.4 (or 38) students fall within the top 10 percent of the class. The 38th student straddles the cut-off point, and is therefore included in the top 10 percent.

THE SELECTION PROCESS

The next step is the selection process. Scholars must be selected by either—

☐ a seven-member Statewide panel appointed by the chief State elected official, acting in consultation with the State educational agency; or

☐ an existing grant agency or panel designated by the chief State elected official and approved by the Secretary of Education.

Note: The selection panel must be made up of representatives of school administrators, teachers, and parents.

Selection criteria and procedures

The selection criteria and procedures are established by the appointed or designated panel or agency in consultation with State and local educational agencies, private schools, and other interested parties. The criteria and procedures must reflect the present and projected needs of the State for preschool, elementary, and secondary teachers. Before these selection criteria and procedures are implemented, they are reviewed and approved for use by the Secretary.

Each State makes applications available to its high schools and to other locations convenient to applicants, parents, and other interested parties. Applicants are selected without regard to whether they plan to attend publicly or privately controlled schools.

DETERMINATION OF AWARD

If selected, a student can receive up to a maximum of $5,000 per academic year. The State agency, and not the student's school, determines how much that student will actually receive. To determine the amount of the award for a particular academic year, the State agency asks the student's school for his or her cost of attendance and the total amount of aid that he or she has been awarded for that year under the SFA programs.

TREATMENT OF OVERAWARDS

SFA

The amount of the Douglas Scholarship combined with any other SFA money awarded to the student, may not exceed the student's cost of attendance. For example, if a student's cost of attendance is $10,000, and that student has been awarded $6,000 in SFA money, the State agency may award only $4,000 in Douglas Scholarship money to the student for that academic year.

Non-SFA

However, If the total of a Douglas scholar's EFC (as calculated under the Congressional Methodology), the Douglas Scholarship, and any other **non-SFA** assistance exceeds the school's cost of attendance, the State agency may not require the student to return the amount of the Douglas Scholarship in excess of the student's cost of attendance. In this case, the State agency or the student's school may counsel the student to decline the part of the Douglas Scholarship that exceeds the cost of attendance.

An example of the above situation is: The cost of attendance at a scholar's school is $6,000. The scholar has received a $2,000 scholarship from a community organization and has an EFC of $1,000. If the student were also going to receive a $5,000 Douglas Scholarship, the State agency or school may counsel the student to decline the portion of the scholarship that exceeded need ($2,000).

PACKAGING OF DOUGLAS SCHOLARSHIP WITH OTHER SFA FUNDS

The Douglas Scholarship may not be substituted for the student's EFC. (For a more detailed explanation of how financial aid is packaged, refer to Chapter Two of this *Handbook*.) When packaging aid, you must treat the Douglas Scholarship the same as you would treat most other types of scholarships.

Following applicable overaward provision

Return of undelivered Stafford or SLS

If you become aware that the student is receiving a Douglas Scholarship prior to packaging aid for that student, the Scholarship is considered as a resource in determining the student's eligibility for campus-based assistance and as estimated student financial assistance in certifying the student's eligibility for a Stafford, PLUS, or SLS loan. If you become aware of the Douglas Scholarship after packaging aid for the student, you must adhere to the applicable overaward provisions in the campus-based, and Stafford and SLS program regulations. You should also note that any undelivered Stafford or SLS proceeds must first be returned to the lender before adjusting or cancelling a students undisbursed campus-based grants or loans.

Also note that even though a Douglas Scholarship is considered to be a resource, it is not considered taxable income under the Internal Revenue Code.

MAINTAINING ELIGIBILITY

Once the applicant is selected to receive a Douglas Scholarship, the State agency will make payments to the Scholar only during periods when the agency finds that the scholar is—

- ☐ enrolled as a full-time student in an institution of higher education that is currently accredited by a nationally recognized accrediting agency or association that the Secretary determines to be a reliable authority regarding the quality of training offered, in accordance with section 1201(a) of the Higher Education Act of 1965, as amended;

- ☐ pursuing a course of study leading to certification as a teacher at the preschool, elementary, or secondary level as determined by the State agency, but not including graduate study that is not required for initial certification; and

- ☐ maintaining satisfactory progress as determined by the individual's school, in accordance with the criteria established in Subpart A of the General Provisions regulations (CFR 34 Part 668.7). For an explanation of satisfactory progress, see Section One in Chapter Two of this *Handbook*.

Scholarships are renewable

These scholarships are renewable annually for each recipient who continues to meet the program eligibility requirements. (However, scholarship assistance is limited to no more than four academic years for each scholar. This is a statutory limit.) In cases where a State allotment does not provide enough funds for the State to fund fully each eligible scholar, the State may make pro-rata reductions to all its renewal awards so as to fulfill its renewal obligations. You should direct any student with questions on the renewability of Douglas Scholarships to that student's State agency. The list of agencies is in Section Five of this chapter.

SCHOLARSHIP AGREEMENT

Teaching obligation

To receive a scholarship an individual enters into an agreement with his or her State agency stating that upon completing his or her degree program, he or she will teach full time in any State at the public or private nonprofit preschool, elementary, or secondary level in a school or State educational program for a period of not less than two years for each year of scholarship assistance he or she receives.

Reduction of teaching obligation

The requirement to teach two years for each year of scholarship assistance is reduced by one-half if the scholar teaches on a full-time basis in a teacher shortage area that is designated as such by the Secretary. However, for this reduction, a scholar can teach only at the elementary or secondary level (no preschool). The Higher Education Act does not give the Secretary the authority to consider any shortage in preschool teachers in designating the teacher shortage areas.

Teacher shortage areas

A teacher shortage area is defined in §682.210 (j) (5) through (7) of the August 27, 1990, regulations for the Guaranteed Student Loan/ and PLUS programs. These final regulations also amend §653.40 of the Douglas Program regulations. These regulations describe how a State's Chief State School Officer identifies a shortage area for designation by the Secretary. They also describe other procedures necessary to establish teacher shortage areas. The teacher shortage areas are designated on an annual basis. However, a scholar who teaches in an area designated as a teacher shortage area in one year will continue to qualify for the teaching reduction even if that area is not designated as a teacher shortage area in subsequent years.

REPAYMENT OF SCHOLARSHIP IF STATE AGENCY/SCHOLAR AGREEMENT IS NOT FULFILLED

If the State finds that a Douglas Scholar has not complied with the State agency/scholar agreement or is no longer pursuing a course of study leading to certification as a teacher at the public or private nonprofit preschool, elementary, or secondary level, the scholar must repay the amount of the scholarship received, prorated according to the fraction of

Repayment includes interest

the teaching obligation not completed as determined by the State agency. The scholar, in this case, is also responsible to pay a simple, annual interest charge on the outstanding principal, and all reasonable collection costs as determined by the State agency.

Interest rates

The State agency capitalizes any accrued interest at the time it establishes the scholar's repayment schedule. By statute, the interest rate charged must be the greater of the rate charged to new borrowers under the Stafford Loan Program, or the rate charged to new borrowers under the SLS or PLUS Programs. For the 1991-92 award year, the rate was 9.34 percent. For 1992-93, the rate will be determined in June 1992.

Simple interest accrues from—

- ❑ the date of the initial scholarship payment if the State agency has determined that the scholar is no longer pursuing a course of study leading to certification as a teacher at the preschool, elementary, or secondary level; or
- ❑ the day after that portion of the scholarship period for which the teaching obligation has been fulfilled. (The scholarship period is the original postsecondary academic year for which the scholarship was awarded.)

The scholarship must be repaid in monthly or quarterly payments that cover principal, interest, and collection costs, according to a schedule established by the State. The minimum yearly repayment is $1,200 or the unpaid balance (whichever is less).

Time allotted for repayment of the scholarship

The scholarship must be completely repaid within 10 years after the scholar enters repayment status, and the State may require the scholar to repay more than the minimum yearly repayment if needed to complete the entire repayment within the 10 year period.

Exceptions to repayment

The State agency shall not consider that the scholar has violated the repayment schedule if he or she does not meet the payments during the time he or she is—

- ❑ engaged in a full-time course of study at a postsecondary school;
- ❑ serving up to a maximum of 3 years as an active duty member of the Armed Forces of the United States;
- ❑ temporarily totally disabled, for a period not to exceed 3 years, as established by sworn affidavit of a qualified physician;
- ❑ seeking but unable to find full-time employment for a single period not to exceed 12 months;

- ❑ unable to secure employment for a period not to exceed 12 months while caring for a disabled spouse; or
- ❑ unable to satisfy the terms of the repayment schedule while seeking but unable to find full-time employment as a teacher in: a) a public or private nonprofit preschool, elementary, or secondary school, or b) a public or private nonprofit preschool, elementary, or secondary education program for a single period not to exceed 27 months.

Notifying the State agency

To qualify for any of the previously listed exceptions, the scholar must notify the State agency of his or her claim and provide supporting documentation as required by the State agency. If the scholar qualifies under any of the exceptions, he or she will not be required to make repayments nor will interest accrue on the outstanding balance.

Length of extension

The State agency shall extend the 10-year scholarship repayment period by a period equal to the length of time a scholar: a) meets any of the exception conditions listed above, or b) is unable to complete the scholarship repayments within this 10-year period because of his or her financial condition (as established to the State's satisfaction).

Cancellation

The State agency shall cancel a scholar's repayment obligation if it determines—

- ❑ on the basis of a sworn affidavit by a qualified physician, that the scholar is unable to teach on a full-time basis because of an impairment that is expected to continue indefinitely or result in death; or
- ❑ on the basis of a death certificate or other evidence—conclusive under State law—that the scholar has died.

SECTION FOUR: NSSP PROGRAM

The National Science Scholars Program (NSSP) is authorized under Title VI, Part A of the Excellence in Mathematics, Science, and Engineering Education Act of 1990 (referred to throughout this section as the Act) (Public Law 101-589, as amended by Public Law 102-103). Under the NSSP, the Secretary of Education is authorized to award scholarships to students for undergraduate study of the life, physical, or computer sciences, mathematics, or engineering.

Purpose of program

The purpose of this program is to recognize student excellence and achievement in the sciences by providing scholarships to meritorious graduating high school students to encourage and enable them to continue their studies at the postsecondary level.

ELIGIBILITY CRITERIA

Students appy through their State nominating committees

A student must apply through the State nominating committee (approved by the U. S. Department of Education) that administers the program in his or her State of legal residence. A student is eligible to apply if he or she—

- ☐ is scheduled to graduate from a public or private secondary school or to obtain the recognized equivalent of a high school diploma during the award year prior to the award year in which the NSSP scholarship is to be awarded;
- ☐ is a citizen or national of the United States or provides evidence from the INS that he or she is—
  1) a permanent resident
  2) in the United States for other than a temporary purpose with the intention of becoming a citizen or permanent resident;
- ☐ has demonstrated outstanding academic achievement in secondary school in the sciences, mathematics, or engineering, as determined by the State nominating committee;

☐ demonstrates on the application to the State nominating committee that he or she intends to apply for enrollment at an "institution of higher education" as a full-time undergraduate student for the purpose of receiving a baccalaureate degree; and

An "institution of higher education" must meet the definition given in Chapter Three, Section One of this *Handbook*..

☐ demonstrates on the application to the State nominating committee that he or she intends to major in one of the sciences.

DEFINITIONS OF THE SCIENCES, MATHEMATICS, AND ENGINEERING

Computer Sciences—This is the branch of knowledge or study of computers. The term encompasses, but is not limited to, such fields of knowledge or study as computer hardware, computer software, computer engineering, information systems, and robotics.

Life Sciences—This is the branch of knowledge or study of living things. The term encompasses, but is not limited to, such fields as biology, biochemistry, biophysics, microbiology, genetics, physiology, botany, zoology, ecology, and behavioral biology. This term does not encompass social psychology or the health professions.

Physical Sciences—This is the branch of knowledge or study of the material universe. The term encompasses, but is not limited to, such fields of knowledge or study as astronomy, atmospheric sciences, chemistry, earth sciences, ocean sciences, and physics.

Mathematics—This is the branch of knowledge or study of numbers and the systematic treatment of magnitude, relationships between figures and forms, and relations between qualities expressed symbolically. The term encompasses, but is not limited to, such fields of knowledge or study as statistics, applied mathematics, and operations research.

Engineering—This is the science by which the properties of matter and the sources of energy in nature are made useful to humanity in structures, machines and products (as in the construction of engines, bridges, buildings, mines, and chemical plants). The term encompasses, but is not limited to, such fields of knowledge or study as aeronautical engineering, chemical engineering, civil engineering, electrical engineering, industrial engineering, materials engineering, and mechanical engineering.

Students attending U.S Service Academies have no cost of attendance and are not eligible to receive an NSSP Scholarship

An otherwise eligible student who applies to a U.S. service academy, but who has not yet been appointed, is eligible to apply for an NSSP scholarship. Such a student may be selected as a Scholar, accept the award, but then be notified of and accept an appointment to a service academy. The Scholar is not eligible for the NSSP once he or she accepts the appointment.

If an otherwise eligible student has accepted an appointment to a U. S. Service Academy before he or she applies for an NSSP, the student would then be ineligible to even apply for the scholarship.

NOMINATION AND SELECTION PROCESS

Nomination of applicants

Each State nominating committee selects nominees in accordance with the eligibility requirements listed on page 23 of this Section under Eligibility Criteria. The committee may adopt one or more minimum standards to determine demonstrated outstanding academic achievement in the sciences, mathematics, or engineering at the secondary school level that may include—

- an overall minimum grade point average; or
- a minimum class rank combined with a minimum grade point average in the sciences, mathematics, and engineering.

THE NOMINATING COMMITTEE

Each State must establish a nominating committee for the purpose of nominating individuals for NSSP scholarships. This committee may be appointed by either the Chief State School Officer (CSSO) or by an existing grant agency or panel that was previously designated by the CSSO and approved by the U.S. Department of Education. The nominating committee in each State establishes operating procedures governing the scholarship nominating process in its State, including:

- developing and Disseminating program information and application materials to the State's public and private secondary schools and GED test centers;
- promoting participation in the NSSP by students from groups underrepresented in the scholarship disciplines (for example, students from minority groups, students with disabilities, or students who are economically disadvantaged);
- establishing written internal administrative procedures for the timely submission, processing, and review of applications submitted by eligible students; and
- reviewing applications and submitting nominations to the U.S. Department of Education, which accepts the nominations on the President's behalf.

Scholar Selection Criteria

The State nominating committee will rate each applicant by considering the following criteria—

- high school class rank and grade or (in the case of the applicant who is earning the recognized equivalent of a high school diploma) the applicant's score on the high school equivalency examination and high school record before leaving school;

- ☐ the applicant's composite score on the American College Testing Service's (ACT) Assessment or the sum of the verbal and quantitative scores on the Scholastic Aptitude Test (SAT);
- ☐ both the applicant's composite score on the ACT Assessment and the sum of the verbal and quantitative scores on the SAT;
- ☐ evidence of exceptional non-academic accomplishment in extracurricular areas (for example, community service, leadership, and artistic and athletic performance) and in the physical, life, or computer sciences, mathematics, or engineering outside the classroom;
- ☐ letters of reference; and
- ☐ an applicant essay.

The nominating committee then submits to the President of the United States the nominations of at least four applicants legally residing in each congressional district in the State. At least half of the nominees from each Congressional District must be female. The nominations must be ranked in order of highest to lowest score on their applications.

Selection of Scholars

For each award year, after consultation with the Department and the National Science Foundation, the President selects and announces from among the nominees submitted by the State nominating committee two individuals residing in each Congressional district.

AMOUNT OF SCHOLARSHIP

The law authorizes initial scholarships of up to $5,000 for the first year of undergraduate study to graduating high school students, and General Education Development (GED) recipients.

The maximum scholarship for 1992-93 is approximately $2,600

The actual amount received by a Scholar depends on the availability of appropriated funds, the number of continuation awards granted, and the requirement that the award may not exceed a scholar's cost of attendance. For fiscal year 1992, Congress has appropriated $4.5 million to fund NSSP scholarships. This means that the maximum scholarship for the 1992-93 postsecondary academic year is approximately $2,600.

Scholarship must be distributed in at least two payments

The school must disburse the scholarship in at least two payments per academic year. If the Scholar incurs unequal education costs in two different payment periods, the scholarship payments may be made in unequal amounts to cover the unequal costs. The school must document why unequal disbursements were made.

A Scholar who continues to meet the eligibility requirements may receive up to **three** additional scholarships in subsequent award years, each awarded for a period of one academic year, to complete his or her undergraduate course of study. (For five-year undergraduate programs, the Scholar may receive additional scholarships for **four** additional years.)

The requirements for receiving continuation awards are explained in greater detail beginning at the bottom of this page.

Once a Scholar is selected, it becomes the responsibility of the Scholar's school to ensure that the Scholar is eligible to receive an initial award and subsequent continuation awards.

RECEIPT OF SCHOLARSHIP

To receive a scholarship, a scholar must—

- ☐ meet the eligibility requirements listed on page 23 in this Section under Eligibility Criteria;
- ☐ have been accepted for enrollment at an institution of higher education (other than a U.S. service academy) as a full-time undergraduate student (as determined by the school) for the purpose of obtaining a baccalaureate degree;
- ☐ have declared a major in one of the physical, life, or computer sciences, mathematics, or engineering;

  If it is the policy of the school at which the scholar has been accepted for enrollment that students not declare a major until a later point in their course of study, then the scholar needs to provide that school with a written statement of intent to major in one of the scholarship fields of study.

- ☐ have filed with the school he or she plans to attend, or is attending, a Statement of Educational Purpose.

Agreement with the Department

For a Scholar to be paid an NSSP award, the school must sign an agreement with the Department. (This agreement will be forwarded to the school at the same time the student is notified of his or her selection to receive the NSSP Scholarship.)

Continuation awards

A student who has received an initial scholarship may receive a scholarship for a subsequent academic year of undergraduate education if that student—

1) continues to be enrolled at an institution of higher education as a full-time undergraduate student for the purpose of receiving a baccalaureate degree, unless the school has determined that unusual circumstances justify a waiver of the full-time attendance requirement;

2) continues to major in one of the scholarship fields, or (in the case of a student who has not yet declared a major) provides a statement to the State and the school of his or her continuing interest to major in one of those fields;

   This notification must be sent to the NSSP contact person from the State in which the Scholar was nominated. The names, addresses, and telephone numbers of State contact persons are printed in Section Five of this chapter.

3) maintains a high level of academic achievement, as defined by the school.

Return of proceeds upon refusal of scholarship

In the event that a Scholar refuses a scholarship, does not attend classes, transfers to another school, or is ineligible for a scholarship and cannot be reinstated in the same award year, the Department will recover the unused portion of the allocation from the school's ED/PMS account.

Returning unexpended funds

If, for any reason, a Scholar fails to use all of his or her scholarship funds during an award year, the funds must be returned to the Department by the school. When the school completes an NSSP Performance Report after the end of the award year, the school will report how much of a Scholar's scholarship was expended. The Department will then de-obligate from the school any unexpended scholarship funds.

CHANGES TO SCHOLARSHIP

If within the award year the Scholar fails to meet the requirements set forth on page 27 under Receipt of Scholarship, the school shall suspend the Scholar's eligibility to receive further scholarships or scholarship proceeds. This suspension must remain in effect until the Scholar is able to demonstrate to the satisfaction of the school that he or she is in compliance with all applicable scholarship eligibility requirements. If the total period of suspension exceeds 12 months, the scholar's eligibility is terminated, unless the Scholar's school determines that the 12 month limitation should be waived due to exceptional circumstances.

Waiver of full-time attendance requirement

The school may waive the full-time attendance requirement for periods during which the school determines—

- ☐ that unusual circumstances have caused the Scholar's noncompliance with the full-time attendance requirement, and
- ☐ that suspension of scholarship eligibility would cause a Scholar undue hardship.

The school must document its determination in the student's file. If the Scholar's full-time attendance requirement is waived, he or she may continue to receive a scholarship payment. The school shall prorate the payment according to the Scholar's enrollment status for the academic period during which he or she continues to be enrolled on a part-time basis but remains otherwise eligible for the award.

EXAMPLE :

Dena C., who is enrolled in a four-year program, is enrolled as a half-time student for one semester. Her full-time attendance requirement has been waived for that semester. One full-year scholarship is \$2,600 or \$1,300 per semester. One-half of \$1,300 is \$650. Dena C. therefore receives \$650, which counts as one-fourth of her eligibility for a year of scholarship assistance.

The remaining portion of the scholarship from the above example will be returned to the NSSP office via the school's submission of its annual Report of Performance. That address is listed below.

National Science Scholars Program
Department of Education
Office of Postsecondary Education
Division of Program Operations and Systems
400 Maryland Avenue, S.W.
ROB #3, Room 4621
Washington, D.C. 20202-5453

Payment is prorated for a Scholar who does not complete the academic period

A Scholar who ceases to be eligible for NSSP scholarship proceeds at a school before completion of an academic period for which payment of a scholarship award has been received is only eligible for a prorated portion of the scholarship award and is liable for any overpayment.

The prorated amount of the scholarship to be returned to the Secretary must be in direct proportion to the length of time in the academic period during which the Scholar was ineligible for a scholarship. The school shall return the overpayment to the Secretary in accordance with the provisions governing the recovery of overpayments in the Pell Grant regulations (see Chapter Four, Section Six).

EXAMPLE :

Tamela B., received $1,300 during the spring term of 1993. The term was 120 days in length; however, Tamela withdrew from school with 30 days left to go in the term. Because she attended three-quarters of the term, the prorated portion of the scholarship for which Tamela is eligible is:

3/4 x $1,300 = $975

Transfer of scholarship from one school to another

If a Scholar transfers to a new school during the award year, the student's former school must immediately calculate the amount of the award disbursed to the Scholar and the amount that remains to be disbursed. The new school must verify that the Scholar has been admitted and is expected to enroll at the new school. This information from both schools must be forwarded to the NSSP office at the address listed on page 29 of this section.

If the Department has an agreement with the new school, it will reallocate the remaining award by sending new authorization letters and Scholar rosters to both schools. The new school then determines if the Scholar continues to meet the eligibility requirements to receive the remaining portion of the award. If the Scholar is eligible for the remaining funds, the new school may then disburse the funds to the Scholar.

If the new school does not have an agreement with the Department, an agreement and compliance certification forms are forwarded to that school for completion. Once these documents are completed and returned, the Department forwards an authorization letter and a roster with the Scholar's name and award amount so that the new school may pay the Scholar if the Scholar remains eligible for an award at the new school.

Another school provides a portion of the Scholar's study

In another case, a school might have an agreement with another school or organization to allow that school or organization to provide a portion of the Scholar's program of study. The school may pay the student the scholarship based on the student's enrollment status at both schools if it—

☐ enters into a written agreement with the other school or organization in accordance with the provisions regarding contractual or consortium agreements covered in Chapter Three, Section Five of this *Handbook*; and

☐ ensures that the Scholar continues to meet the eligibility requirements for the NSSP.

SCHOLARSHIP REINSTATEMENT

A scholar whose eligibility is suspended for reasons including (but not limited to) pregnancy, child rearing, or other family responsibilities may have that eligibility reinstated by the school at which he or she is enrolled if—

☐ the period of suspension or interruption was for a period of no more than 12 months unless the school determines that the 12-month limitation should be waived due to exceptional circumstances, and

☐ the scholar demonstrates to the school that he or she is in compliance with the relevant eligibility and renewal requirements.

PACKAGING OF SCHOLARSHIP WITH OTHER SFA FUNDS

If an NSSP scholar receives other Federal aid in addition to his or her NSSP scholarship, that scholarship cannot be reduced on the basis of receipt of such aid. However, that scholarship must be taken into consideration when determining the scholar's eligibility for other sources of Federal aid. The scholarship is considered as a "resource" for the campus-based programs and as "estimated financial assistance" for the guaranteed student loan programs. A school must reduce a scholar's Pell Grant if the NSSP scholarship plus the Pell Grant exceeds the scholar's cost of attendance under the Congressional Methodology.

Reduction of Pell

FY funding shortfall procedures

In the event that funds available in a fiscal year are insufficient to fully fund each award, all scholarships will be reduced proportionately.

SUMMER EMPLOYMENT OPPORTUNITIES FOR SCHOLARS

Public Law 101-589

Summer Employment Provision

The Act also contains a provision regarding summer employment opportunities for Scholars. To the extent that they are otherwise qualified, students receiving NSSP Scholarships shall be given priority consideration for federally funded summer employment in federally funded research and development centers. The employment must, to the maximum extent practicable, complement and reinforce the educational program of these students.

Each Scholar receives a letter from the Department that lists Federal agencies and federally funded organizations that are interested in providing Scholars with appropriate employment opportunities. The summer 1992 letter was mailed in January 1992.

List of State agencies

For further information on the NSSP Program, you should have your students contact the State's NSSP representative (listed in the Directory of State Agencies in Section Five of this chapter).

SECTION FIVE:
DIRECTORY OF STATE AGENCIES

Listed below for each State, are the agencies responsible for administering the SSIG, Paul Douglas Teacher Scholarship, Robert C. Byrd Honors Scholarship Programs, and the National Science Scholars Program (NSSP) in that State, along with a contact person for each agency. The SSIG agency is always listed first, followed by the Douglas agency (in States where the Douglas program operates), the Byrd agency, and lastly by the NSSP agency. In most of the States, the SSIG and Douglas programs are administered by the same agency, while the Byrd program and NSSP are administered by either the State Department of Education or a different agency. The contact for each agency is usually the program official, designated as such with a "(P)" in front of his or her name. In a few instances, when there is no program official, the official listed will be the senior agency official. That person will be designated as such with an "(A)" in front of his or her name.

ALABAMA

ALABAMA COMMISSION ON HIGHER EDUCATION
Suite 221, One Court Square
Montgomery, Alabama 36104-3584
TEL: (205) 269-2700

SSIG Contact:

(P) Ms. Jan B. Hilyer
Staff Assistant for Student Assistance

DOUGLAS PROGRAM:

Not participating

BYRD PROGRAM AND NSSP:

STATE DEPARTMENT OF EDUCATION
Gordon Persons Office Building
50 North Ripley Street
Montgomery, Alabama 36130-3901
TEL: (205) 242-8013

(P) Mr. Paul Wylie
Coordinator of Secondary Instructional Services

ALASKA

ALASKA COMMISSION ON POSTSECONDARY EDUCATION
Post Office Box FP
Juneau, Alaska 99811
TEL: (907) 465-2854

SSIG and Douglas Contact:

(P) Ms. Diane Barrans
Special Programs Coordinator

BYRD PROGRAM AND NSSP:

STATE DEPARTMENT OF EDUCATION
Alaska State Office Bldg.
P.O. Box F
Juneau, Alaska 99811

Byrd Contact:

(P) Ms. Terri Campbell
Program Coordinator
TEL: (907) 465-2884

NSSP Contact:

(P) Ms. Peggy Cowan
Science Specialist
TEL: (907) 465-2800

ARIZONA

Arizona Commission for
Postsecondary Education
2020 North Central Ave., Suite 275
Phoenix, Arizona 85004

SSIG Contact:

(P) Mr. Louie R. Bustillo
Education Program
Compliance Officer
TEL: (602) 229-2593

Douglas Contact:

(P) Dr. Porfirio R. Diaz
Executive Director
TEL: (602) 229-2592

Byrd Program and NSSP:

State Department of Education
1535 West Jefferson
Phoenix, Arizona 85007

Byrd Contact:

(P) Mr. William L. Hunter
Education Program Director
TEL: (602) 542-2147

NSSP Contact:

(P) Mr. Michael Lang
State Science Supervisor
TEL: (602) 542-3537

ARKANSAS

Arkansas Department of
Higher Education
1220 West Third Street
Little Rock, Arkansas 72201
TEL: (501) 324-9300

SSIG Contact:

(P) Mr. Phil Axelroth
Assistant Coordinator of
Student Aid

Douglas Contact:

(P) Ms. Lillian K. Williams
Assistant Coordinator of
Student Financial Aid

Byrd Program and NSSP:

Arkansas Department of Education
4 State Capitol Mall, Room 304A
Little Rock, Arkansas 72201-1071
TEL: (501) 682-4474

(P) Dr. Charles D. Watson
Math and Special Projects
Specialist

CALIFORNIA

California Student Aid Commission
1515 S Street, North Bldg.
Suite 500, P.O. Box 942845
Sacramento, California 94245-0845

SSIG Contact:

(P) Ms. Rebecca Stilling
Deputy Director
TEL: (916) 322-9267

Douglas Contact:

(P) Ms. Janet McDuffie
Coordinator, Specialized Programs
TEL: (916) 322-8801

Byrd Program:

California Student Aid Commission
1515 S Street, North Bldg.
Suite 500, P.O. Box 942845
Sacramento, California 94245-0845
TEL: (916) 322-8801

(P) Ms. Janet McDuffie
Coordinator, Specialized Programs

NSSP:

California Department of Education
721 Capitol Mall
P.O. Box 944272
Sacramento, California 94244-2720
TEL: (916) 324-7100

(P) Mr. Tom Saschee

COLORADO

Colorado Commission on Higher Education
Colorado Heritage Center
1300 Broadway, 2nd Floor
Denver, Colorado 80203
TEL: (303) 866-2723

SSIG and Douglas Contact:

(P) Mr. John Ceru
Administrator,
Colorado Student Aid Programs

Byrd Program and NSSP:

State Department of Education
201 East Colfax Avenue
Denver, Colorado 80203-1705

Byrd Contact:

(P) Dr. Arvin C. Blome
Assistant Commissioner
TEL: (303) 866-6782

NSSP Contact:

(P) Ms. Mary Gromko
Science Consultant
TEL: (303) 866-6764

CONNECTICUT

SSIG, Douglas, & Byrd Program:

Connecticut Board of Higher Education
61 Woodland Street
Hartford, Connecticut 06105-2391
TEL: (203) 566-2618

(P) Mr. John J. Siegrist
Director of Student
Financial Aid

NSSP:

Connecticut State Dept. of Education
P.O. Box 2210
Hartford, Connecticut 06145
TEL: (203) 566-4825

(P) Dr. Sigmund Abeles
Science Consultant

DELAWARE

Delaware Higher Education Commission
Carvel State Office Building
820 North French Street, 4th Floor
Wilmington, Delaware 19801
TEL: (302) 577-3240

SSIG Contact:

(P) Ms. Marilyn R. Baker
Associate Director

Douglas Contact:

(P) Dr. John F. Corrozi
Executive Director

Byrd Program and NSSP:

State Department of
Public Instruction
Townsend Building, #279
Federal & Lockerman Streets
Post Office Box 1402
Dover, Delaware 19903

Byrd Contact:

(P) Ms. Marcia Reese
State Supervisor, Vocational Ed./
Special Programs
TEL: (302) 739-4681

NSSP Contact:

Mr. John Cairnes
State Supervisor of Science/
Environmental Education
TEL: (302) 739-4601

DISTRICT OF COLUMBIA

Department of Human
Services
Office of Postsecondary Education,
Research and Assistance
2100 Martin Luther King, Jr. Avenue, SE
Suite 401
Washington, D.C. 20020

SSIG Contact:

(P) Ms. Jean T. Green
Program Manager (Acting)
D.C. SSIG Section
TEL: (202) 727-3685

Douglas Contact:

(P) Ms. Lurencia Henderson
Student Financial Assistance Specialist
TEL: (202) 727-3688

Byrd Program:

District of Columbia Public Schools
Carver Administrative Unit
45th & Lee Street, N.E.
Washington, D.C. 20019
TEL: (202) 724-4934

(P) Ms. Annabell Strayhorn
Director

NSSP:

Division of Curriculum and
Educational Technology
Langdon Administrative Unit
20th & Evarts Street, N.E.
Washington, D.C. 20004
TEL: (202) 576-7817

(P) Ms. Susie Oliphant
Director of Curriculum for
Science

FLORIDA

Florida Education Center
Room 1344
Tallahassee, Florida 32399-0400
TEL: (904) 488-1034

SSIG, Byrd, Douglas, and NSSP Contact:

(P) Dr. M. Elizabeth Sweeney
Administrator of State Programs

GEORGIA

Georgia Student Finance
Authority
State Loans & Grants Division
2082 East Exchange Place
Suite 200
Tucker, Georgia 30084
TEL: (404) 493-5452

SSIG and Douglas Contact:

(P) Mr. William A. Flook
Program Officer

Byrd Program:

State Department of Education
2066 Twin Towers East
205 Butler Street
Atlanta, Georgia 30334
TEL: (404) 656-5812

(P) Mr. Lonnie Love
Administrator

NSSP:

Georgia Department of Education
1952 Twin Towers East
205 Butler Street
Atlanta, Georgia 30334-5040
TEL: (404) 656-2586

(P) Ms. Kathleen Varnell
Science Education Coordinator

HAWAII

Hawaii State Postsecondary
Education Commission
2444 Dole Street, Room 209
Honolulu, Hawaii 96822
TEL: (808) 956-8213

SSIG Contact:

(P) Mr. Carl H. Makino
Administrative Assistant to
the Commission

Douglas Program:

Not participating

Byrd Program:

State Department of Education
1302 Queen Emma Street
Room A207
Honolulu, Hawaii 96813
TEL: (808) 735-3981

(P) Ms. Eloise Lee
Administrator, Byrd Scholarship
Program

Hawaii State Department of Education
P.O. Box 2360
1300 Miller Street, #307
Honolulu, Hawaii 96804
TEL: (808) 586-3310

(P) Mr. John Hawkins
Science Educational Specialist

IDAHO

Office of the State Board
of Education
Len B. Jordan Building, Room 307
650 West State Street
Boise, Idaho 83720
TEL: (208) 334-2270

SSIG Contact:

(P) Mr. Keith Hasselquift
Chief Fiscal Officer

Douglas Contact:

(P) Mr. Bill Hargrove
Public Affairs Officer

Byrd Program and NSSP:

State Department of Education
650 West State Street
Boise, Idaho 83720

Byrd Contact:

(P) Ms. Sally Keister
Coordinator
TEL: (208) 334-2113

NSSP Contact:

(P) Mr. Richard Kay
Science Consultant
TEL: (208) 334-2281

ILLINOIS

Illinois Student
Assistance Commission
106 Wilmot Road
Deerfield, Illinois 60015
TEL: (708) 948-8500

SSIG Contact:

(P) Mr. Arnold Schneider
Director, Program Administration
and Compliance Division

Douglas Contact:

(P) Mr. Larry E. Matejka
Executive Director

Byrd Program and NSSP:

State Board of Education
100 North First Street
Springfield, Illinois 62777

Byrd Contact:

(P) Mr. Ray Schaljo
Manager
TEL: (217) 782-5728

NSSP Contact:

(P) Ms. Anne Marie Fuhreg
Manager, Curriculum
Improvement
TEL: (217) 782-9373

INDIANA

State Student Assistance
Commission of Indiana
150 West Market Street
Suite 500
Indianapolis, Indiana 46204-1088
TEL: (317) 232-2350

SSIG Contact:

(P) Ms. Patricia Bright
Business and Accounting
Manager

Douglas Contact:

(P) Mr. Dennis Obergfell
Acting Executive Director

BYRD AND NSSP PROGRAMS:

INDIANA DEPARTMENT OF EDUCATION
Room 229 - State House
Center for School Improvement
& Performance
Indianapolis, Indiana 46204-2798
TEL: (317) 232-9101

(P) Mrs. Phyllis L. Usher
Senior Officer

IOWA

IOWA COLLEGE AID COMMISSION
201 Jewett Building
Ninth and Grand Avenue
Des Moines, Iowa 50309
TEL: (515) 281-3501

SSIG and Douglas Contact:

(P) Mr. John W. Heisner
Director, Program
Administration

BYRD PROGRAM:

STATE DEPARTMENT OF EDUCATION
Grimes State Office Building
Bureau of Instruction & Curriculum
Des Moines, Iowa 50319-0146

(P) Dr. Leland Wolf
Consultant
TEL: (515) 281-3198

NSSP:

IOWA DEPARTMENT OF EDUCATION
Grimes State Office Building
Des Moines, Iowa 50319

(P) Dr. W. Tony Heiting
Science Consultant
TEL: (515) 281-3249

KANSAS

KANSAS BOARD OF REGENTS
Suite 609, Capitol Tower
400 South West 8th Street
Topeka, Kansas 66603
TEL: (913) 296-3517

SSIG and Douglas Contact:

(P) Ms. Christine Crenshaw
Director of
Student Financial Aid

BYRD PROGRAM:

STATE DEPARTMENT OF EDUCATION
Kansas State Education Bldg.
120 East Tenth Street
Topeka, Kansas 66612-1103
TEL: (913) 296-2306

(P) Mr. Warren J. Bell
Director

NSSP:

KANSAS STATE DEPARTMENT OF EDUCATION
120 East Tenth Street
Topeka, Kansas 66612
TEL: (913) 296-2598

(P) Dr. Ramona J. Anshutz
Science Specialist

KENTUCKY

KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY
1050 U.S. 127 South, Suite 102
Frankfort, Kentucky 40601
TEL: (502) 564-4928

SSIG and Douglas Contact:

(P) Ms. Joyce A. Bryan
Manager, Student Aid
Programs

BYRD PROGRAM:

STATE DEPARTMENT OF EDUCATION
1725 Capital Plaza Tower, 17th Floor
Frankfort, Kentucky 40601
TEL: (502) 564-6720

(P) Ms. Diane Teasley
Division Director,
Student Support Services

NSSP:

Kentucky Department of Education
500 Mero Street
Capitol Plaza Tower, Room 1829
Frankfort, Kentucky 40601
TEL: (502) 564-4770

(P) Ms. Sue Darnell
Science Consultant

LOUISIANA

LOUISIANA STUDENT FINANCIAL ASSISTANCE COMMISSION
Office of Student Financial Assistance
Post Office Box 91202
Baton Rouge, Louisiana 70821-9202

SSIG Contact:

(P) Ms. Winona Kahoe
Director, Scholarships
and Grants
TEL: (504) 922-1150

Douglas Contact:

(P) Mr. Danny Walker
Chairman
TEL: (504) 922-1011

BYRD PROGRAM:

STATE DEPARTMENT OF EDUCATION
Post Office Box 94064
626 North 4th Street, 12th Floor
Baton Rouge, LA 70804-9064
TEL: (504) 342-2098

(P) Ms. Sue Weaver
Assistant to the Superintendent

NSSP:

LOUISIANA STATE DEPARTMENT OF EDUCATION
Post Office Box 94064
Baton Rouge, LA 70804-9064
TEL: (504) 342-3602

(P) Ms. Cheryl Emanuel
Program Manager for Science
and Environmental Education

MAINE

FINANCE AUTHORITY OF MAINE
Post Office Box 949
83 Western Avenue
Augusta, Maine 04333-0949
TEL: (207) 289-2183

SSIG Contact:

(P) Ms. Nancy E. Wasson
Consultant, Maine Student
Incentive Scholarship Program

Douglas Contact:

(P) Mrs. Helen Renko-Flanagan
Consultant

BYRD PROGRAM:

FINANCE AUTHORITY OF MAINE
Higher Education Services
Maine Education Assistance Division
State House Station #119
One Western Court
Augusta, Maine 04330
TEL: (207) 289-2183

(P) Mrs. Helen Renko-Flanagan
Consultant

NSSP:

STATE DEPARTMENT OF EDUCATION
State House Station #23
Augusta, Maine 04333
TEL: (207) 289-5925

(P) Mr. Thomas E. Keller
Science Consultant

MARYLAND

MARYLAND STATE
SCHOLARSHIP ADMINISTRATION
Jeffrey Building
16 Francis Street
Annapolis, Maryland 21401
TEL: (410) 974-5370

SSIG Contact:

(P) Ms. Janice Breslin-Doyle
Director

Douglas Contact:

(A) Mr. Michael A Smith
Assistant Director

BYRD PROGRAM AND NSSP:

STATE DEPARTMENT OF EDUCATION
200 West Baltimore Street
Baltimore, Maryland 21201-2595

Byrd Contact:

(P) Ms. Sue Travetto
Student Affairs Specialist
TEL: (410) 333-2267

NSSP Contact:

(P) Ms. Mary Ann Brearton
Specialist in Science
TEL: (410) 333-2311

MASSACHUSETTS

BOARD OF REGENTS OF HIGHER EDUCATION
Scholarship Office
330 Stuart Street
Boston, Massachusetts 02116
TEL: (617) 727-9420

SSIG and Douglas Contact:

(P) Ms. Elizabeth K. Fontaine
Director, Scholarship
Office

BYRD PROGRAM:

STATE DEPARTMENT OF EDUCATION
Quincy Center Plaza
1385 Hancock Street
Quincy, Massachusetts 02169-5183
TEL: (617) 770-7616

(P) Mr. Raymond Gehling
Chapter II Block Grant
Coordinator

NSSP:

Massachusetts Department of Education
Division of School Programs
1385 Hancock Street
Quincy, Massachusetts 02169
TEL: (617) 770-7347

(P) Mr. C. Rodgers Close
Coordinator

MICHIGAN

MICHIGAN DEPARTMENT OF EDUCATION
Post Office Box 30008
Lansing, Michigan 48909
TEL: (517) 373-3394

SSIG and Douglas Contact:

(P) Ms. Jean Maday
Supervisor

BYRD PROGRAM:

STATE DEPARTMENT OF EDUCATION
Post Office Box 30008
608 West Allegan Street
Lansing, Michigan 48909
TEL: (517) 373-3399

(P) Mr. H. Jack Nelson
Acting Interim Director, Student
Financial Assistance Services

NSSP:

STATE DEPARTMENT OF EDUCATION
Post Office Box 30008
Lansing, Michigan 48909
TEL: (517) 373-4223

(P) Mr. Mozell P. Lang
Science Specialist

MINNESOTA

MINNESOTA HIGHER EDUCATION
COORDINATING BOARD
Suite 400, Capitol Square
550 Cedar Street
St. Paul, Minnesota 55101

SSIG Contact:

(P) Ms. Cheryl Maplethorpe
Manager, State Financial
Aid Programs
TEL: (612) 296-9657

Douglas Contact:

(P) Ms. Mary Lou Dresbach
Program Assistant
TEL: (612) 296-1215

BYRD PROGRAM:

STATE DEPARTMENT OF EDUCATION
712 Capitol Square Building
550 Cedar Street
St. Paul, Minnesota 55101
TEL: (612) 297-2585

(P) Ms. Zona Sharp-Burk
Minnesota Academic Excellence Foundation

NSSP:

STATE DEPARTMENT OF EDUCATION
525 Capitol Square Building
550 Cedar Street
St. Paul, Minnesota 55101
TEL: (612) 296-4071

(P) Mr. Edward Hessler
Science Specialist

MISSISSIPPI

Mississippi Postsecondary Education Financial Assistance Board
3825 Ridgewood Road
Jackson, Mississippi 39211-6453
TEL: (601) 982-6570

SSIG Contact:

(P) Ms. Dottie Strain
Assistant Director

Douglas Contact:

(P) Dr. James L. Flippin
Director

BYRD PROGRAM:

STATE DEPARTMENT OF EDUCATION
Post Office Box 771
550 High Street, Room 501
Jackson, Mississippi 39205-0771
TEL: (601) 359-3513

(P) Mr. Andy Mullins
Director, External Relations

NSSP:

STATE DEPARTMENT OF EDUCATION
Bureau of Instructional Services
Post Office Box 771, Suite 604
Jackson, Mississippi 39205-0771
TEL: (601) 359-3778

(P) Dr. Donna Lander
Director

MISSOURI

MISSOURI COORDINATING BOARD FOR HIGHER EDUCATION
101 Adams Street
Jefferson City, Missouri 65101
TEL: (314) 751-2361

(P) Mr. Dan Peterson
Senior Associate, Student Financial Aid Programs

DOUGLAS PROGRAM:

Not participating

BYRD PROGRAM:

STATE DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION
Post Office Box 480
205 Jefferson Street, Sixth Floor
Jefferson City, Missouri 65102
TEL: (314) 751-2931

(P) Dr. Celeste Ferguson
Assistant Commissioner

NSSP:

State Department of Elementary and Secondary Education
Instructional Improvement and
Resources Section
Post Office Box 480
Jefferson City, Missouri 65102-0480
TEL: (314) 751-5386

(P) Ms. Betty Lohraff
Director

MONTANA

Montana University System
33 South Last Chance Gulch
Helena, Montana 59620-3104
TEL: (406) 444-6594

SSIG and Douglas Contact:

(P) Mr. William J. Lannan
Director of Special Projects

Byrd Program and NSSP:

State Office of Public Instruction
State Capitol, Room 106
Helena, Montana 59620

Byrd Contact:

(P) Mr. Michael Hall
Gifted and Talented Education
Specialist
TEL: (406) 444-4422

NSSP Contact:

(P) Mr. Bob Briggs
Science Specialist
(406) 444-6594

NEBRASKA

Nebraska Coordinating Commission for Postsecondary Education
Post Office Box 95005
301 Centennial Mall South
Lincoln, Nebraska 68509

SSIG Contact:

(P) Dr. Bruce G. Stahl
Executive Director
TEL: (402) 471-2847

Douglas Contact:

(P) Mr. Rex Filmer
Scholarship Director
TEL: (402) 471-4336

Byrd Program and NSSP:

State Department of Education
Post Office Box 94987
301 Centennial Mall South
Lincoln, Nebraska 68509

Byrd Contact:

(P) Dr. Dean F. Bergman
Administrative Assistant
TEL: (402) 471-2784

NSSP Contact:

(P) Mr. James A Woodland
Educator
TEL: (402) 471-4329

NEVADA

State Department of Education
400 West King Street
Capitol Complex
Carson City, Nevada 89710

SSIG Contact:

(P) Ms. Susan Lloyd
Coordinator, Nevada Student
Incentive Grant Program
TEL: (702) 687-5915

DOUGLAS PROGRAM:

Not participating

BYRD PROGRAM AND NSSP:

STATE DEPARTMENT OF EDUCATION
400 West King Street
Capitol Complex
Carson City, Nevada 89710

Byrd Contact:

(P) Dr. Kevin Crowe
Director
Planning, Research, and
Evaluation Branch
TEL: (702) 687-3130

NSSP Contact:

Dr. Anne C. Keast
Consultant, Gifted and Talented
TEL: (702) 687-3136

NEW HAMPSHIRE

NEW HAMPSHIRE EDUCATION COMMISSION
2 Industrial Park Drive
Concord, New Hampshire 03301
TEL: (603) 271-2555

SSIG and Douglas Contact:

(P) Mr. Ronald Wilson
Student Financial Assistance
Coordinator

BYRD PROGRAM:

STATE DEPARTMENT OF EDUCATION
State Office Park South
101 Pleasant Street
Concord, New Hampshire 03301
TEL: (603) 271-2632

(P) Mr. William B. Ewert
Administrator, Bureau of
Elementary/Secondary
Education

NSSP:

NEW HAMPSHIRE DEPARTMENT OF EDUCATION
Science Department
101 Pleasant Street
Concord, New Hampshire 03301
TEL: (603) 271-2632

(P) Dr. Edward J. Hendry
Curriculum Supervisor

NEW JERSEY

NEW JERSEY DEPARTMENT OF HIGHER EDUCATION
Office of Grants and Scholarships
4 Quakerbridge Plaza CN 540
Trenton, New Jersey 08625
TEL: (609) 588-3268

SSIG and Douglas Contact:

(P) Ms. Renee Saleh
Director, Grants and Scholarships

BYRD PROGRAM:

STATE DEPARTMENT OF EDUCATION
225 West State Street
Trenton, New Jersey 08625-0500
TEL: (609) 984-6409

(P) Ms. Ann Hansen
Program Administrator

NSSP:

New Jersey Department of Education
Bureau, Curriculum and Technology
CN 500, 225 West State Street
Trenton, New Jersey 08625-0500
TEL: (609) 984-1805

(P) Dr. Bruce Marganoff
Science Coordinator

NEW MEXICO

SSIG Program:

Commission on Higher Education
1068 Cerrillos Road
Santa Fe, New Mexico 87501-4295
TEL (505) 827-7383

(P) Ms. Frankie Chrisman
Assistant Executive Director

Douglas Program:

New Mexico Educational
Assistance Foundation
Post Office Box 27020
Albuquerque, New Mexico 87125-7020
TEL: (505) 345-3371

(P) Ms. Margie Dunn
Administrative Coordinator

Byrd Program:

State Department of Education
Education Building
300 Don Gaspar
Santa Fe, New Mexico 87501-2786
TEL: (505) 827-6648

(P) Mr. Ralph Paiz
Chapter II Director

NSSP:

Not participating

NEW YORK

New York State Higher Education
Services Corporation
One Commerce Plaza
Albany, New York 12255
TEL (518) 473-0431

SSIG and Douglas Contact:

(P) Mr. Francis J. Hynes
Vice President

Byrd Program:

State Education Department
111 Education Building
Washington Avenue
Albany, New York 12234
TEL: (518) 474-5902

(P) Ms. Carolyn D. Byrne
Director

NSSP:

New York State Education Department
Office of Higher & Continuing Education
Cultural Education Center
Room 5A37
Albany, New York 12234
TEL: (518) 474-3896

(P) Mr. Mike Van Ryn
Assistant Commissioner for
Excellence and Access

NORTH CAROLINA

NORTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
Post Office Box 2688
Chapel Hill, North Carolina 27515-2688
TEL: (919) 549-8614

SSIG Contact:

(P) Mr. Stan C. Broadway
Executive Director

Douglas Contact:

(P) Ms. Julia Martin
Manager, Scholarships and Grants

BYRD PROGRAM:

STATE DEPT. OF PUBLIC INSTRUCTION
Education Building
Division of Teacher Education
116 West Edenton Street
Raleigh, NC 27603-1712
TEL: (919) 733-0701

(P) Ms. Grace Drain
Chief, Consultant for Teacher Recruitment

NSSP:

NORTH CAROLINA DEPT. OF PUBLIC INSTRUCTION
116 West Edenton Street
Raleigh, NC 27603-1712
TEL: (919) 733-8317

(P) Ms. Mary H. Lamm
Science Program Specialist

NORTH DAKOTA

NORTH DAKOTA STATE BOARD OF HIGHER EDUCATION
N.D. Student Financial Assistance Program
600 East Boulevard
Bismarck, North Dakota 58505-0154
TEL: (701) 224-4114

SSIG and Douglas Contact:

(P) Ms. Peggy Wipf
Director of Financial Aid

BYRD PROGRAM:

STATE DEPT. OF PUBLIC INSTRUCTION
State Capitol Bldg., 11th Floor
600 Boulevard Avenue East
Bismarck, North Dakota 58505-0164
TEL: (701) 224-2098

(P) Mr. Clarence Bina
Director, Special Projects

NSSP:

NORTH DAKOTA DEPT. OF PUBLIC INSTRUCTION
600 Boulevard Avenue East
Bismarck, North Dakota 58505-0440
TEL: (701) 224-2260

(P) Mr. Chuck Deremer
Director, Educational Support Programs

OHIO

SSIG PROGRAM:

OHIO BOARD OF REGENTS
3600 State Office Tower
30 East Broad Street
Columbus, Ohio 43266-0417
TEL: (614) 466-1191

(P) Mr. Charles W. Seward III
Director, Student Assistance Office

Douglas & Byrd Programs:

Ohio Student Loan Commission
PO Box 16610
Columbus, Ohio 43266-0610
TEL: (614) 644-8892

(P) Ms. Paula E. Price
Assistant to the Director

NSSP:

Ohio Department of Education
Division of Elementary and
Secondary Education
65 South Front Street, Room 1005
Columbus, Ohio 43266-0308
TEL: (614) 466-2211

(P) Dr. Frank Schiraldi
Assistant Director

OKLAHOMA

Oklahoma Tuition Aid Grant Program
PO Box 54009
Oklahoma City, Oklahoma 73154-2054
TEL: (405) 840-8356

SSIG and Douglas Contacts:

(P) Ms. Shiela Joyner
Director, Oklahoma Tuition Aid
Grant Program

Byrd Program:

State Department of Education
Oliver Hodge Memorial Education Bldg.
2500 North Lincoln Boulevard
Oklahoma City, OK 73105-4599
TEL: (405) 521-3694

(P) Ms. Rubi J. Nichols
State Director of ESEA Chapter
2 ED Block Grant Program

NSSP:

Oklahoma State Department of Education
Gifted/Talented Section
2500 North Lincoln Boulevard
Oklahoma City, OK 73105-4599
TEL: (405) 521-4287

(P) Ms. Cynthia Brown
Director

OREGON

SSIG, Douglas, & Byrd Programs

Oregon State Scholarship Commission
1445 Willamette Street
Eugene, Oregon 97401
TEL: (503) 346-4166

SSIG Contact:

(P) Mr. James A. Beyer
Director, Grant Programs

Douglas Contact:

(P) Mr. Douglas L. Collins
Deputy Director

Byrd Contact:

(P) Mr. Jeffrey M. Lee
Executive Director

NSSP:

Oregon Department of Education
700 Pringle Parkway, S.E.
Salem, Oregon 97310-0290
TEL: (503) 378-3602

(P) Mr, Ray Theiss
Science Education Specialist

PENNSYLVANIA

Pennsylvania Higher Education Assistance Agency
660 Boas Street
Towne House
Harrisburg, Pennsylvania 17102

SSIG Contact:

(P) Mr. Gary D. Smith
Deputy for Grants
TEL: (717) 257-2800

Douglas Contact:

(P) Mr. James L. McKelvey
Manager of Special Services
TEL: (717) 975-3300

Byrd Program:

Pennsylvania Higher Education Assistance Agency
660 Boas Street
PO Box 8114
Harrisburg, PA 17105-8114
TEL: (717) 975-3320

(P) Ms. Joan Lawhead
Administrative Assistant

NSSP:

Department of Education
333 Market Street
Harrisburg, PA 17126-0333
TEL: (717) 787-5820

(P) Dr. G. Kip Bollinger
State Science Advisor

RHODE ISLAND

Rhode Island Higher Education Assistance Authority
560 Jefferson Boulevard
Warwick, Rhode Island 02886
TEL: (401) 277-2050

SSIG Contact:

(P) Ms. Mary Ann Welch
Principal Program Analyst

Douglas Contact:

(P) Mr. Elwood G. Farber
Executive Director

Byrd Program and NSSP:

State Department of Education
22 Hayes Street
Providence, Rhode Island 02908

Byrd Contact:

(P) Mr. Francis A. Richards
Education Specialist III
TEL: (401) 277-3126

NSSP Contact:

(P) Ms. Vanessa Cooley
TEL: (401) 277-2905

SOUTH CAROLINA

SSIG Program:

South Carolina Higher Education Tuition Grants Commission
P. O. Box 12159
Columbia, South Carolina 29211
TEL: (803) 734-1200

(P) Mr. Edward M. Shannon III
Executive Director

Douglas Program:

South Carolina Student Loan Corporation
Post Office Box 21487
Columbia, South Carolina 29221
TEL: (803) 798-7960

(P) Mr. Mike Fox
Manager

Byrd Program:

State Department of Education
801 Rutledge Building
1429 Senate Street
Columbia, South Carolina 29201
TEL: (803) 734-8396

(P) Mr. Joel Taylor
Director, Office of General Education

NSSP:

South Carolina Department of Education
801 Rutledge Building
Columbia, South Carolina 29201
TEL: (803) 734-8492

(P) Dr. Peggey W. Cain
Science Consultant

SOUTH DAKOTA

South Dakota Department of Education and Cultural Affairs
Office of the Secretary
700 Governors Drive
Pierre, South Dakota 57501-2291
TEL: (605) 773-3134

SSIG, Douglas, and Byrd Contact:

(P) Ms. Roxie Thielen
Administrative Aide

NSSP:

South Dakota Department of Education and Cultural Affairs
Division of Education
700 Governors Drive
Pierre, South Dakota 57501-2291
TEL: (605) 773-4712

(P) Mr. Jim Hauck
Coordinator

TENNESSEE

Tennessee Student Assistance Corporation
Suite 1950, Parkway Towers
404 James Robertson Parkway
Nashville, Tennessee 37219-5097
TEL: (615) 741-1346

SSIG Contact:

(P) Ms. Karen F. Myers
Program Administrator

Douglas Contact:

(P) Dr. Alan Cullum
Program Administrator

Byrd Program:

State Department of Education
100 Cordell Hull Building
Nashville, Tennessee 37219-5335
TEL: (615) 741-2731

(P) Dr. Charles E. Smith
Commissioner

NSSP:

Not participating

TEXAS

Texas Higher Education
Coordinating Board
Post Office Box 12788
Capitol Station
Austin, Texas 78711
TEL: (512) 483-6340

SSIG and Douglas Contact:

(P) Mr. Mack C. Adams
Assistant Commissioner for
Student Services

Byrd Program and NSSP:

Texas Education Agency
William B. Travis Building
1701 N. Congress Avenue
Austin, Texas 78701-1494

Byrd Contact:

(P) Mr. Mike Gula
Director
TEL: (512) 463-9661

NSSP Contact:

(P) Dr. Philip Gehring
TEL: (512) 463-9823

UTAH

SSIG Program:

Utah State Board of Regents
Utah System of Higher Education
355 West North Temple
#3 Triad Center, Suite 550
Salt Lake City, Utah 84180-1205
(801) 538-5247

(P) Mr. Chalmers G. Norris
Associate Commissioner for
Finance

Douglas Program:

Utah State Board of Regents
355 West North Temple
#3 Triad Center, Suite 550
Salt Lake City, Utah 84180-1205
TEL: (801) 538-5247

(P) Dr. Mark H. Spencer
Assistant Commissioner

Byrd Program:

Utah State Office of Education
250 East 500 South
Salt Lake City, Utah 84111
TEL: (801) 538-7741

(P) Mr. Roger C. Mouritsen, Ph.D
Coordinator, Certification and
Personnel Development

NSSP:

Not participating

VERMONT

Vermont Student Assistance Corporation
Champlain Mill
Post Office Box 2000
Winooski, Vermont 05404-2601
TEL: (802) 655-9602

SSIG and Douglas Contact:

(P) Mr. Edward Franzeim
Director, Grant Programs

Byrd Program:

State Department of Education
Vermont Student Assistance Corporation
Champlain Mill
Post Office Box 2000
Winooski, Vermont 05404-2000
TEL: (802) 655-9602

(P) Mr. Donald R. Vickers
Associate Executive Director

NSSP:

Vermont Department of Education
120 State Street
Montpelier, Vermont 05620-2501
TEL: (802) 828-3111

(P) Mr. Alan Kousen
State Science Consultant

VIRGINIA

State Council of Higher Education for Virginia
James Monroe Building
101 North Fourteenth Street
Richmond, Virginia 23219
TEL: (804) 225-2623

SSIG and Douglas Contact:

(P) Mr. Stephen R. Merritt
Coordinator, Financial Aid Programs

Byrd Program and NSSP:

State Department of Education
Post Office Box 6Q
James Monroe Building
14 and Franklin Streets
Richmond, Virginia 23216-2060

Byrd Contact:

(P) Dr. Don S. Ayers
Supervisor
TEL: (804) 225-2072

NSSP:

(P) Mr. Jim Firebaugh
Principal Science Specialist
TEL: (804) 225-2651

WASHINGTON

Washington State Higher Education Coordinating Board
917 Lakeridge, Morris Business Park
Mail Stop GV-11
Olympia, Washington 98504
TEL: (206) 586-6404

SSIG and Douglas Contact:

(P) Ms. Shirley A. Ort
Deputy Director, Student Financial Aid

Byrd Program and NSSP:

State Department of
Public Instruction
Old Capitol Building FG11
Olympia, Washington 98504-3211

Byrd Contact:

(P) Ms. Paula Fascilla
Supervisor
TEL: (206) 753-2858

NSSP Contact:

(P) Mr. David Kennedy
Supervisor of Science Programs
TEL: (206) 753-6757

WEST VIRGINIA

Central Office of the State College
and University Systems of West Virginia
1018 Kanawha Boulevard, East
Suite 700
Charleston, West Virginia 25301

SSIG Contact:

(P) Mr. Robert E. Long
Grant Program Coordinator
TEL: (304) 347-1211

Douglas Contact:

(P) Ms. Diana P. Wood
Scholarship Programs Coordinator
TEL: (304) 347-1231

Byrd Program:

State Department of Education
1900 Washington Street
Building B, Room 358
Charleston, West Virginia 25305
TEL: (304) 348-2691

(P) Mr. Frank Andrews
Assistant Superintendent

NSSP:

West Virginia Department of Education
Office of General Education
1900 Kanawha Boulevard East
Capitol Complex, Bldg.6 Room B 330
Charleston, West Virginia 25305
TEL: (304) 348-7805

(P) Ms. Phyllis Barnhart
State Science Coordinator

WISCONSIN

Higher Educational Aids Board
131 West Wilson Street, Suite 902
P. O. Box 7885
Madison, Wisconsin 53707

SSIG Contact:

(P) Mr. Donavan K. Fowler
Administrator, Programs
and Policy
TEL: (608) 266-1660

Douglas Contact:

(P) Mr. James Prindiville
Administrator, Programs and Policy
TEL: (608) 266-1954

BYRD PROGRAM AND NSSP:

STATE DEPT. OF PUBLIC INSTRUCTION
125 South Webster Street
Post Office Box 7841
Madison, Wisconsin 53707

Byrd Contact:

(P) Mr. Arnold Chandler
TEL: (608) 266-2364

NSSP Contact:

(P) Mr. Al Hovey, Jr.
Science Education Consultant
TEL: (608) 266-3319

WYOMING

WYOMING COMMUNITY COLLEGE COMMISSION
122 West 25th Street
Herschler Building 2W
Cheyenne, Wyoming 82002
TEL: (307) 777-7763

SSIG Contact:

(P) Ms. Carol Boam-Smith
Dean, Educational Policy

DOUGLAS PROGRAM:

Not participating

BYRD PROGRAM:

STATE DEPARTMENT OF EDUCATION
Hathaway Building
2300 Capitol Avenue, 2nd Floor
Cheyenne, Wyoming 82002
TEL: (307) 777-6202

(P) Dr. Audrey M. Cotherman
Deputy State Superintendent

NSSP:

WYOMING STATE DEPARTMENT OF EDUCATION
Hathaway Building
Cheyenne, Wyoming 82002-0050
TEL: (307) 777-6247

(P) Dr. Bill Futrell
Science, Mathematics, and
Environmental Ed. Coordinator

AMERICAN SAMOA

AMERICAN SAMOA COMMUNITY COLLEGE
Board of Higher Education
c/o American Samoa Government
Pago Pago, Amer. Samoa 96799-2609
TEL: (684) 699-9155

(A) Dr. Saeu Scanlon
President

DOUGLAS, BYRD, AND NSSP:

Not participating

GUAM

UNIVERSITY OF GUAM
Financial Aid Office
UOG Station
Mangilao, Guam 96923
TEL: (671) 734-4469

(P) Ms. Rita C. Walsh
Financial Aid Director

DOUGLAS & BYRD PROGRAMS:

Not participating

NSSP:

Guam Department of Education
P.O. Box DE
Agana, Guam 96910
TEL: (671) 472-8901

(P) Ms. Cheri Stock
Spc., Gifted Education

NORTHERN MARIANA ISLANDS

Northern Marianas College
Post Office Box 1250
Saipan, MP 96950
TEL: (670) 234-6128

SSIG Contact:

(P) Mr. José Bermudas

Douglas Contact:

(P) Mr. Manual Flores Borja
Dean, Student Affairs

BYRD PROGRAM:

Not participating

NSSP:

Northern Mariana Islands Board of Education
P. O. Box 1370
Public School System
Saipan, MP 96950
TEL: (670) 332-3194

(P) Mrs. Jackie A. Quitugua
Science Program Specialist

Northern Mariana Islands DC Representative:

Mr. John Babauta
2121 R Street, N.W.
Washington, D.C. 20008
TEL: (202) 673-5869

PUERTO RICO

Council on Higher Education
Box 23305 - UPR Station
Rio Piedras, Puerto Rico 00931
TEL: (809) 758-3350

SSIG and Douglas Contact:

(P) Ms. Mary Marrero
Chief Officer of Economic Aid
to Students

BYRD PROGRAM:

Department of Education
Post Office Box 759
Hato Rey, Puerto Rico 00919
TEL: (809) 753-1623

(P) Mr. Ramon Ramos Alvarado
Assistant Secretary

NSSP:

Puerto Rico Department of Education
Office 809
Post Office Box 759
Hato Rey, Puerto Rico 00919
TEL: (809) 753-9255

(P) Mr. Julio Lopez-Ferrao
Science Program Director

TRUST TERRITORY OF THE PACIFIC ISLANDS

Office of Financial Aid
Micronesian Occupational College
PO Box 9
Koror, Republic of Palau, TT 96940

(P) Mrs. Dahlia Katosang
Director, Financial Aid Office

Douglas, Byrd, and NSSP:

Not participating

VIRGIN ISLANDS

SSIG Program

Virgin Islands Board of Education
Post Office Box 11900
St. Thomas, Virgin Islands 00801
TEL: (809) 774-4546

(P) Ms. Carmen Luzunaris
Financial Aid Officer

Douglas Program

Department of Education
Office of the Commissioner
No. 44-46 Kongens Gade
Charlotte Amalie
St. Thomas, Virgin Islands 00802
TEL: (809) 774-2810

(P) Ms. Linda Creque, Ph. D.
Commissioner of Education

Byrd Program:

Not participating

NSSP:

Virgin Islands Department of Education
No. 44-46 Kongens Gade
Charlotte Amalie
St. Thomas, Virgin Islands 00801
TEL: (809) 774-0100

(P) Dr. Ashley M. Bryan
Coordinator of the Sciences

DEPARTMENT OF EDUCATION STAFF

Mr. Fred H. Sellers
Chief, State Grant Section

Ms. Jacquelyn C. Jones:
Secretary

Mr. Charles Brazil:
Mr. Stephen D. Wingard:
Mr. Dan Sullivan
Mrs. Denise Boulanger
Program Specialists

Central Office Mailing Address and telephone number:

Office of Student Financial
Assistance/Office of
Postsecondary Education
U.S. Department of Education
400 Maryland Avenue, S.W.,
ROB #3 Room 4018
Washington, D.C. 20202-5447
TEL: (202) 708-4607

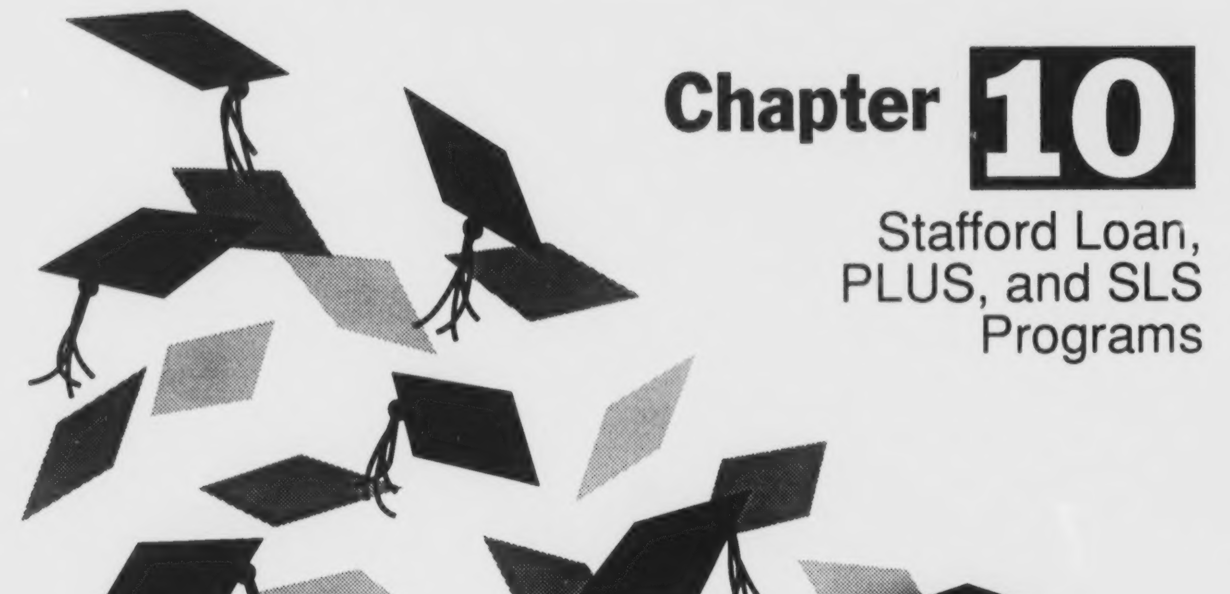
United States
Department of
Education

Office of
Student Financial
Assistance

The Federal Student Financial Aid Handbook, 1992-93

Chapter 10

Stafford Loan, PLUS, and SLS Programs



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INTRODUCTION

Stafford Loans (formerly Guaranteed Student Loans), Supplemental Loans for Students (SLS), PLUS loans, and Consolidation Loans are the guaranteed student loan (GSL) programs included under Part B of Title IV of the Higher Education Act of 1965, as amended. These programs make long-term loans available to students attending institutions of higher education, vocational, technical, business, and trade schools, and some foreign schools. To encourage participation in the Stafford Loan Program, the Federal Government subsidizes interest on those loans, and pays an allowance to all GSL lenders, enabling them to obtain competitive interest rates on guaranteed student loans.

State or private nonprofit guarantee agencies insure guaranteed student loans and are reimbursed by the Federal Government for all or part of the insurance claims they pay to lenders. The guarantee replaces the security or collateral usually required for a long-term consumer loan.

NOTE: Although all guarantee agency programs must meet the Federal requirements discussed in this chapter, *individual guarantee agencies may have additional requirements.* You can obtain specific information about a guarantee agency's procedures by contacting that agency. Appendix A of this chapter contains a list of guarantee agencies and their addresses and telephone numbers.

Stafford Loans are available to undergraduate and graduate students; SLS loans are for graduate or professional students, and for independent undergraduates; and PLUS loans are for parents of dependent students. Stafford, SLS, Federal Insured Student Loans (FISLs), Perkins Loans, and Health Professions Student Loans may be consolidated if their cumulative total is at least $5,000 and the borrower meets certain other conditions (discussed in Section Four).

New legislation and changes to GSL regulations, and other points of special interest are highlighted in the chapter through use of margin notes. When "Dear Colleague" letters are used to explain changes in the GSL programs, reference to the appropriate Dear Colleague letter is made in the text. A brief summary of new information of special interest is provided below.

SUMMARY OF NEW REQUIREMENTS AND INITIATIVES

P.L. 102-26

The Higher Education Technical Amendments of 1991 (P.L. 102-26) and a subsequent FEDERAL REGISTER notice (September 16, 1991) provided additional guidance to schools concerning GSL borrowers who served on active duty in connection with Operation Desert Shield or Operation Desert Storm. A chart explaining the effects of Operation Desert Shield/ Desert Storm service on GSL borrowers with regard to deferment, forbearance, and collection activities is found in Section Two. P.L. 102-26 also allowed schools to refuse to certify a loan for cause, and eliminated the statute of limitations for student loan collections.

An addition to the GSL regulations, effective December 12, 1991, requires that a Stafford, SLS, or PLUS borrower be notified whenever a change in the holder or servicer of his or her loan results in a change of address where loan payments must be sent.

Regulations implementing legislation designed to penalize schools with unacceptably high default rates became effective on September 2, 1991. These regulations detail the circumstances under which a school may lose eligibility to participate in GSL programs, and provide for the "mitigating circumstances" schools may use to appeal loss of eligibility.

Section One of this chapter covers borrower eligibility criteria of particular interest to students with guaranteed loans; more detail on general eligibility requirements is provided in Chapter Two of the *Handbook*.

Sections Two through Five discuss the provisions of the guaranteed student loan programs, including a short section (Section Four) on loan consolidation and refinancing.

Section Six takes you step-by-step through the loan application process, using a "typical" loan application as a model. Section Seven covers payment of loan proceeds. Section Eight focuses on default reduction measures, especially those requirements that are mandatory for schools with default rates above a given level. Default reduction measures that are relevant to other sections of the chapter are mentioned in those sections also, with a reference to Section Eight for more detail.

Section Nine covers the requirements of loan counseling and offers suggestions about how loan information might be presented to students. Finally, Section Ten covers those responsibilities and requirements of schools that have not been addressed in previous sections.

SECTION ONE: ELIGIBILITY

In general, a student must be enrolled at least half time in an eligible program and must maintain satisfactory academic progress in order to be eligible for a Stafford, SLS, or a PLUS loan. Chapters Two and Three of the *Handbook* cover the eligibility requirements of students and schools in considerable detail; only those eligibility requirements of special interest to Stafford Loan, PLUS, and SLS borrowers are noted here.

BORROWER ELIGIBILITY FOR STAFFORD, PLUS, AND SLS LOANS

While eligibility criteria for students participating in all student financial assistance (SFA) programs are generally the same, there are some significant differences in Stafford Loans, PLUS, and SLS that should be mentioned:

- A member of a religious community may be eligible for a Stafford Loan, PLUS, or SLS. (Members of religious communities, in most cases, are not eligible for other SFA programs.)

- Only students who are U.S. citizens or nationals may receive a Stafford Loan or SLS for study at a foreign school; "eligible noncitizens" may receive a Stafford, PLUS, or SLS loan only for study at schools located within a State. PLUS parent borrowers for students attending a foreign school need only meet the general requirements for a citizen or eligible noncitizen, as outlined in Section One of Chapter Two; the student for whom the parent borrows, however, must be a U.S. citizen or national. (The Stafford, PLUS, and SLS programs are the only SFA programs that allow participation by foreign schools.)

Medical interns/ residents *ineligible* for loans

- A student is *ineligible* to receive Perkins, Stafford, or SLS loans while in a medical internship or residency program—unless the internship is part of the school's degree program—and a parent may not borrow a PLUS for a student in such a program. This restriction became effective January 1, 1990, for any loan proceeds not delivered to the borrower by that date; it does *not* apply to students in dental internship programs.

Undergrads at schools with 30% or greater default rate *ineligible* for SLS

- An undergraduate student at a school with a cohort default rate of 30 percent or more generally is ineligible for an SLS loan. See Section Eight under "Requirements of schools with default rates of 30 percent or more" for more information about this restriction.

✓ P.L. 102-26

For Stafford and PLUS, test required for students without h.s. diploma or GED

- In general, a student must have a high school diploma or General Education Development certificate (GED) in order to be eligible for a Stafford or SLS loan, or for a parent to borrow a PLUS for the student. The Higher Education Technical Amendments of 1991 require students *without* a high school diploma or GED to pass a test approved by the Department of Education in order to be eligible for a Stafford Loan or for a parent to borrow a PLUS for the student. This provision became effective July 1, 1991. Note that students must have a high school diploma or GED to be eligible for an SLS; the test cannot be used to establish eligibility for SLS borrowers. For more information on the testing process, see Section One of Chapter Two of the *Handbook*.

- In some cases, a student at a school offering a program of as few as 300 hours may be eligible for a Stafford Loan, PLUS, or SLS. In the other SFA programs, the eligibility cutoff is six months (600 clock hours, 16 semester hours, 24 quarter hours, or 16 trimester hours). Technically, this issue is associated with institutional eligibility and the definition of "vocational school"; it is mentioned here because it is often thought of in connection with student eligibility.

- As with other SFA programs, if a student owes a refund on an SFA grant, or is in default on a loan made under the Stafford Loan, SLS, PLUS, Income Contingent Loan, or Perkins Loan (formerly National Direct Student Loan) programs—or on a Consolidation Loan—for attendance at *any* school, he or she is not eligible for a Stafford Loan or SLS. (See Section Four for more information on

Consolidation Loans.) The parents of such a student may not borrow a PLUS loan for him or her. In addition, if a parent is in default or owes a refund on any SFA program, he or she may not take out a PLUS loan for any of his or her children in postsecondary education. A GSL loan written off as uncollectible and closed out by the Department is still considered to be a defaulted loan for purposes of borrower eligibility. Certification that the borrower is not in default and does not owe a refund is a requirement for which the school is responsible, and is discussed under "Estimated financial assistance" in Section Six. More information on student certification requirements is found in Section One of Chapter Two of the *Handbook*. See "Loan Rehabilitation Provisions" in Section Six for information on regaining eligibility for SFA programs once a borrower has defaulted.

- A determination of Pell Grant eligibility or ineligibility must be made for undergraduate Stafford Loan *and SLS* applicants if the school participates in the Pell Grant Program. This requirement does not apply to students for whom a parent is seeking a PLUS. In addition, a determination of need for a Stafford Loan must be made for SLS applicants. More detail on eligibility determination is provided in Section Six under "Estimated financial assistance" and "Additional factors in determining loan eligibility."

- There are two exceptions to the general rule that an SFA recipient must be enrolled or accepted for enrollment in a degree or certificate program:

    - ☐ An otherwise eligible student may apply for a Stafford Loan and/or SLS (and the student's parent may borrow under the PLUS Program) for a single consecutive 12-month period, *if* the school has determined that the course work is necessary in order for the student to enroll in a degree or certificate program and the student is enrolled at least half time; and

    - ☐ A student enrolled at least half time in a program required by a State for teacher certification or recertification at the elementary or secondary level may apply for a Stafford Loan and/or SLS without being enrolled as a regular student (and the

Stafford Loan, SLS, and PLUS now permitted for non-degree teacher certification or recertification

student's parent may apply for a PLUS). The school's records must indicate that the courses taken are those required by the State where the student will be teaching. (See Section One of Chapter Two of the *Handbook* for more detail on these two exceptions to student eligibility requirements.)

- If a student is incarcerated and is scheduled to be unconditionally released by the beginning of the repayment period, he or she is eligible for a Stafford Loan.

An eligible parent borrower for a PLUS is a student's natural mother or father, adoptive parent, or legal guardian. If a stepparent is an adoptive parent or a legal guardian, he or she can borrow under PLUS. An eligible parent borrower must meet the same citizenship or residency requirements that student borrowers are required to meet. (See the exception for parent borrowers for students attending a foreign school, under the second bullet in this section.)

INSTITUTIONAL ELIGIBILITY

In order to participate in the Stafford Loan, PLUS, or SLS programs, a school must be an institution of higher education or a vocational school. Foreign schools comparable to these types of institutions can also be eligible, if they are approved by the U.S. Department of Education. Only a school accredited as an institution of higher education offering a graduate level program may certify guaranteed loans at the graduate level. Definitions of eligible institutions are found in Chapter Three of the *Handbook.*

The new eligibility regulations (Section 600.3[c] and [d] of the Institutional Eligibility regulations) requiring credit hour/clock hour conversions by certain schools in order to meet State requirements may affect the length of those schools' programs, and thus affect program eligibility requirements for the GSL programs. See Section One of Chapter Three for more information about the impact of credit hour/clock hour conversions on loan eligibility.

✓ P.L. 101-508

New SLS loan limit restriction

A new restriction on loan limits for SLS borrowers, while not an institutional eligibility requirement, may affect program requirements for SLS borrowers. From January 1,1990, until November 5, 1990, legislation required that SLS annual loan limits (including the reduced limits for first-year undergraduate students enrolled in programs of less than one academic year) apply to a minimum of nine consecutive months or the school's academic year, whichever was longer. Recent legislation, effective for loans certified on or after November 5, 1990, has reduced the period to which SLS loan limits apply to a minimum of seven consecutive months or the school's academic year, whichever is longer. This means that only one SLS loan for the allowed maximum can be guaranteed during any seven-month period. See "Requirements for all schools" under Section Eight for more information on this limitation.

Loss of eligibility

If a school has been notified that it has lost its eligibility to participate in the GSL programs and the school does not intend to appeal the decision, it must immediately inform all current *and prospective* students of its loss of eligibility, and explain that it can no longer certify GSL loans for attendance at the school. If the school appeals its loss of eligibility within the required time frame, it may continue certifying GSL loans during the appeal process. Once a final decision on the appeal is made, the school must take the appropriate action described in the Department's final appeal decision letter. (See Section Eight under "Appealing loss of eligibility" for more information about the appeal process.)

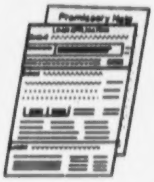
If a school loses eligibility or decides not to participate in GSL programs, reinsurance of loans previously disbursed will not be affected, and interest benefits will continue as long as the student maintains his or her required enrollment status. The student's grace period and eligibility for in-school deferment also will not be affected by a school's loss of eligibility. However, if a school loses eligibility *before* it delivers any loan proceeds to the student, the proceeds may not be delivered to the student, because the school is no longer an eligible school. A student who first enrolls at the school after the school loses eligibility may not receive an in-school deferment on a GSL loan because the student would not be enrolled at a participating school. (See Section Eight under "Default Reduction Initiatives" for information about how excessive default rates affect a school's eligibility.)

If a school plans to withdraw from participation in the GSL programs, it must notify both the appropriate guarantee agency or agencies and the Department of its decision. Once the effective date of withdrawal has been established, the school cannot deliver to a student any loan proceeds it receives from a lender, and must return the loan proceeds to the lender within 30 days. To find out more about the procedures required for withdrawal from the GSL programs, call (202) 708-9396.

The word "school(s)" as used in this chapter means a school participating in Stafford Loan, PLUS, and SLS programs, even though the word "participating" is not always included.

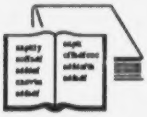
SECTION TWO: STAFFORD LOANS

Steps in the Stafford Loan Process



Eligible borrower applies for a Stafford Loan, and signs a promissory note. Loan period or period of enrollment usually corresponds to a semester, academic year, or specific course of study.

↓



Borrower begins studies. Loan interest is paid by the government during this in-school period.

↓

Borrower completes studies, drops below half-time status, or leaves school. ***Grace period begins.***

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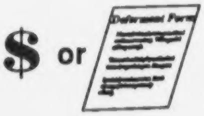

Borrower begins repayment or seeks a deferment.

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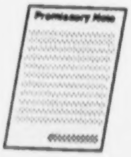

Borrower completes repayment.

Each of the guaranteed loan programs has different loan limits, interest rates, and repayment and deferment conditions; those elements will be discussed in this section and the next. Provisions for forbearance, cancellation, and default—common to all three programs—will be discussed in Section Five, along with some bases for comparing the loan programs.

LOAN LIMITS

A chart comparing loan limits for the GSL programs is found in Section Five. The following Stafford Loan limits are for periods of enrollment beginning on or after January 1, 1987:

- up to $2,625 per academic year for first- and second-year undergraduates, and for students in programs normally completed in two academic years or less (regardless of how long it takes the student to complete the program);

- up to $4,000 per academic year for undergraduates who have achieved third-year status. (Determination of a student's grade level is based on his or her progress in the *current* program of study; a previous undergraduate degree in a different program is not considered in this determination.) The maximum outstanding debt allowed for undergraduate study is $17,250. Note that students enrolled in teacher certification or recertification programs are considered the same as 5th year undergraduate students, and may borrow up to $4,000 per year.

- up to $7,500 per academic year for graduate or professional students, to a maximum outstanding debt of $54,750, including any outstanding Stafford Loans borrowed for undergraduate study. (PLUS and SLS loans are not considered in Stafford Loan limits.)

The aggregate limit (or sum total) for both undergraduate and graduate/professional students must also include any portion of a borrower's Consolidation Loan that was used to repay a Stafford Loan or SLS. Thus, *consolidation of a student's loans does not increase his or her loan limits.* The student should contact the holder of his or her Consolidation Loan to determine the makeup of the loan—that is, the loan amounts and type of each loan consolidated—and to determine, if payment has been made, how that payment has been apportioned among the loans consolidated. See Section Four for more information on Consolidation Loans.

For the Stafford Loan Program, the student can borrow up to the aggregate limit on loans outstanding; once the loans are repaid in full or in part, a student again may apply for a Stafford Loan. (In the Perkins Loan Program, on the other hand, the loan maximum is limited by the total borrowed, even though previous loans may have been repaid.)

Loan limits are affected by factors such as other aid received, cost of attendance, and expected family contribution.

INTEREST RATES AND GRACE PERIODS

Borrowers with outstanding 8% loans

The interest rate for borrowers whose first loans were made from September 13, 1983, to June 30, 1988, is 8 percent. The 8 percent rate is effective for Stafford Loans made for any *period of instruction* (regardless of the date of disbursement) that begins on or after September 13, 1983, but before June 30, 1988. Subsequent loans will also be at 8 percent, as long as the borrower has Stafford Loans outstanding.

Borrowers with 8-10% loans

The interest rate for a borrower with no guaranteed loans outstanding, whose loan is for a period of enrollment beginning on or after July 1, 1988, will be 8 percent per year beginning on the *date of disbursement* and ending four years after repayment begins, and 10 percent per year during the rest of the repayment period. The four-year time frame cannot be extended by deferment or forbearance periods. The 10 percent interest rate is subject to adjustment. If the sum of the average of bond equivalent rates of 91-day Treasury bills auctioned each quarter, plus 3.25 percent, yields less than the 10 percent interest rate on these loans, the lender must rebate the difference to the borrower's account at the end of each calendar year. The rebate can be made either by reducing the amount of the borrower's payments, or by reducing the number of payments required to repay the loan.

Grace period—definition

Grace period for correspondence students

Borrowers with 8 percent loans are entitled to a six month *grace period*, which is the period between the termination of at least half-time study at a participating school, and the beginning of loan repayment. The grace period for loans begins on the date when the borrower ceases attending school at least half time—either because the course of study has been completed, or because the student drops out of school, drops below half-time status, or transfers to a school that does not participate in the Stafford Loan Program. Repayment begins six months (or 9-12 months, as explained in the following paragraph) after the month in which the grace period began. The borrower may request a shorter grace period. For correspondence students, the grace period begins on the date the borrower completes the program, or 60 days after: (1) the school's deadline for completing the program, or (2) the student misses the due date of a scheduled assignment.

Borrowers with outstanding 7% loans

If a borrower with an outstanding Stafford Loan at 7 percent (the interest rate for a loan made prior to January 1, 1981) borrows again, those loans will also be at the 7 percent rate. If a borrower with prior loans at 7 percent has paid off all of those loans and wishes to apply for a Stafford Loan for a loan period beginning on or after July 1, 1988, he or she would be considered a new borrower, and would receive the interest rate for new borrowers (8 percent, changing to 10 percent four years after repayment begins). On loans with an interest rate of 7 percent, the borrower is entitled to a 9- to 12- month grace period before repayment begins. Borrowers with Stafford Loans made prior to October 1, 1981, are entitled to a six month *post-deferment* grace period following any deferment. While a borrower may have several periods of unemployment deferred, however, only one post-deferment grace period per borrower is permitted. The 9- to 12- month grace period for 7 percent loans is set by the lender or the guarantee agency, and is shown on the promissory note, signed by the borrower.

Borrowers with outstanding 9% loans

Similarly, if a borrower received a first loan on or after January 1, 1981, through September 12, 1983, at the 9 percent interest rate (the interest rate in effect during that period), and has an outstanding loan at that rate, subsequent loans will also be at 9 percent. The grace period is six months for loans made at 9 percent. Again, if all 9 percent loans have been completely repaid, a subsequent Stafford Loan to that borrower made for a loan period beginning on or after July 1, 1988, would be at 8 percent (increasing to 10 percent four years after repayment begins).

Stafford Loan Fees

- *insurance premium*
- *origination fee*

ADDITIONAL COSTS OF BORROWING

For loan applications signed by the borrower *on or after* July 1, 1987, the maximum insurance premium that a guarantee agency may charge the lender of a Stafford Loan, SLS, or PLUS is a one-time fee, not to exceed 3 percent of the principal amount of the loan. If the lender passes this charge on to the borrower, the fee must be deducted proportionately from each disbursement of the loan.

For loan applications signed by the borrower *before* July 1, 1987, a guarantee agency could charge a lender up to 1 percent per year of the unpaid balance of the loan as an insurance premium. Lenders could, and usually did, pass this charge on to the borrower. It could be charged to the borrower in one lump sum prior to the beginning of repayment and the total amount subtracted from the first loan disbursement; or it could be deducted proportionately from each loan disbursement.

The lender may charge the borrower a 5 percent origination fee for Stafford Loans made on or after October 1, 1986, if a completed promissory note was sent to the student for signing on or after August 23, 1981.* For loans made prior to July 1, 1986, the fee was generally deducted from the loan amount prior to the first disbursement. For loans made on or after July 1, 1986, lenders who deduct the origination fee must deduct it proportionately from each disbursement of the loan proceeds.

The origination fee and the insurance premium must be refunded by crediting the borrower's loan account if the loan check is returned uncashed to the lender, is not cashed within 120 days of disbursement, or if the loan is repaid-in-full within 120 days of disbursement. Note that the loan origination fee is not retained by the lender, but is turned over to the Federal Government to help offset the cost of Federal interest subsidies.

REPAYMENT

While the borrower is in school at least half time, interest on a Stafford Loan is paid by the Federal Government on the borrower's behalf. Loan repayment begins after the grace period has ended. Generally, the first payment on a Stafford Loan is due no later than 45 days after the first day of the month in which repayment begins.

Remind students to keep lenders informed

It is the student's responsibility to notify the lender of the date on which he or she ceases to be enrolled at a participating school at least half time. You are urged to emphasize to students the importance of this responsibility. Upon notification of this critical date, the lender will send a repayment schedule to the borrower. A change in GSL regulations now requires that if assignment of a loan results in a change in where loan payments should be sent, the borrower must be notified by the present and former holder of the loan of the change within 45 days of its occurrence. In addition if, as often happens, the lender sells the loan or otherwise transfers the right to receive payment, the borrower must be notified. This notification should spell out the borrower's obligations to the new holder of the loan. (See Section Nine under Exit Counseling for more detail on this requirement.) Provisions of the loan repayment schedule must agree with those in the promissory note and the loan Disclosure Statement. Generally, the borrower has from five to ten years to pay off the loan. Any periods of authorized deferment or forbearance granted are not counted in the five- and ten-year repayment period. The borrower may prepay all or part of a loan at any time without penalty.

REMINDER: *Schools are required to inform the lender (or guarantee agency) of any change in the borrower's enrollment status.*

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* For loans made October 1, 1989, through December 31, 1990, the maximum origination fee was 5.5 percent on all disbursements of the loan, regardless of when those disbursements were made.

If a student returns to school at least half time *before* the grace period ends, he or she may again postpone loan repayment while in school and will be entitled to a full grace period upon termination of enrollment or when dropping below half-time status. The student should understand, however, that *once the grace period ends, he or she is in repayment status, and must enroll in a participating school full time in order to qualify for a deferment.* (See the exception to full-time enrollment for new borrowers under "Deferment" in this section.)

Minimum payment requirements

In general, minimum monthly payments must be at least $50 ($600 per year) on new loans; when both husband and wife have Stafford Loans, the minimum combined annual payment for the couple is also $600. Loan payments for Stafford Loans, however, usually exceed these minimums. The lender may require a repayment period of less than five years, if necessary, to ensure that the above minimum payments are met.

If, after obtaining a Stafford Loan, the borrower enrolls less than half time, fails to enroll during the period for which the loan was intended, or is otherwise found to be ineligible for all or part of the loan, the borrower must immediately notify the lender and repay the amount due. If the borrower fails to do so, the lender, after following due diligence requirements (which include demanding payment in full), may file a default claim for the full loan amount. The school must also notify the lender of the borrower's loan ineligibility.

DEFERMENT

Deferment periods are periods during which payment of principal on a Stafford Loan is postponed and, in general, interest subsidy payments are made by the Federal Government. Once repayment begins, borrowers are entitled to a deferment if they meet the requirements below; however, *the borrower must request a deferment, usually on a form provided by the lender, and must provide documentation to the lender in support of the request.* A deferment period begins on the date the condition, such as unemployment or military service, begins.

Retroactive deferments

A deferment can be granted retroactively for up to two months for unemployment, and for up to six months for all other deferments. For an unemployment deferment, the borrower must provide an additional deferment request before the end of each three-month period of unemployment, affirming his or her continuing search for employment.

A deferment for full- or half-time study at a school participating in the GSL programs is commonly referred to as an "in-school" deferment. With the approval of the agency guaranteeing the loan, a GSL application can serve as a request for in-school deferment for a full-time student. A lender or guarantee agency may rely on the school's certification of a borrower's eligibility for the in-school deferment. In-school deferment *for a previous loan* can be obtained for a borrower enrolled in an ineligible program that is part of a participating school.

Under prior law, medical interns or residents at certain schools could receive an "in-school" deferment for the full internship or residency program. (The Department has interpreted the term "medical internship or residency" as limited to internships or residencies required of doctors of medicine, osteopathy, or optometry.) However, under provisions of the Omnibus Budget Reconciliation Act of 1989, beginning January 1, 1990, a borrower in a medical (not dental) internship or residency program may not receive *or continue* this "in-school" deferment. If eligible, the borrower may receive the two-year internship or residency deferment and subsequently must be granted forbearance of principal for the remainder of the internship/residency program. See Dear Colleague letters GEN-89-58 (December 1989) and GEN-90-33 (September 1990) for more detail on this restriction.

✓ P.L. 101-239

No in-school deferment for medical intern or residency program

If a borrower's loan is in default, he or she is not eligible for any deferments for that loan.

The Higher Education Amendments of 1986 and the Technical Amendments of 1987 added a number of deferments to those already available to Stafford, PLUS, and SLS borrowers. However, some of the new deferments are applicable only to new borrowers. (See page10-19 for the definition of new borrower.) For more detailed information on deferments than is provided here, see Section 682.210 of the GSL regulations, and Dear Colleague letters GEN 87-29 (July 1987) and GEN 88-34 (October 1988).

Deferments of repayment for all Stafford Loan borrowers are authorized for:

- Full-time study at a school participating in the Stafford Loan Program (unless the borrower is not a U.S. national and is studying at a foreign school).

  NOTE: As noted on page 10-14, while a Stafford Loan borrower may obtain a loan while a half-time student, once he or she ceases enrollment at a participating school at least half time and enters repayment, that student must enroll full time in a program in order to be eligible for a deferment. (See the exception for new borrowers on page 10-19.)

- Full-time study at an institution of higher education or a vocational school which is operated by an agency of the Federal Government. (Most federally operated schools are associated with the Department of Veterans Affairs or with the armed forces. Appendix B is a list of federally operated schools.)

- Study in an eligible graduate fellowship program, including a recognized graduate international fellowship program at a foreign university. The borrower will have to provide the lender with specific information about the program.

- Study in an approved rehabilitation training program for the disabled.

- Up to three years of active duty status in the United States armed forces (Army, Navy, Air Force, Marine Corps, and the Coast Guard) or service as an officer in the Commissioned Corps of the U.S. Public Health Service (including any combination of such periods of service). Members of the National Guard or the Reserves who are on full-time *active duty status*—as distinguished from full-time service—may qualify for military deferment. Such a borrower is serving in the active military service.

  Military deferment for service in Operation Desert Shield or Desert Storm

  Members of the National Guard or Reserves who served in Operation Desert Shield or Desert Storm and those persons serving on active duty who, because of Desert Shield/Storm were reassigned to a duty station other than the one where they would normally be assigned are entitled to special consideration regarding deferment. The chart on the following page explains the deferment provisions for Stafford Loan borrowers who served in Operation Desert Shield/Storm. *Of special note is that members of the Reserves and National Guard who are Stafford Loan borrowers may receive a military deferment for the duration of their Operation Desert Shield/Storm service, even if it exceeds the three-year maximum normally allowed for a military deferment.*

- Up to three years of volunteer service under the Peace Corps Act (if the borrower has agreed to serve for at least one year).

PROVISIONS FOR DESERT STORM/ SHIELD BORROWERS	Perkins/NDSL	Stafford	SLS, PLUS, Consolidation
Period of Active Duty	•All borrowers are entitled to military deferment. (May exceed 3 years for Reservists/National Guard) •Notice provides alternative of in-school status.	•All borrowers are entitled to military deferment. (May exceed 3 years for Reservists/National Guard) •Notice provides in-school status for borrowers not yet in repayment; in-school deferment for borrowers who have entered repayment.	•Any SLS loan and PLUS loans made before August 15, 1983 eligible for military deferment. •Others receive in-school deferment under the Notice.
Grace Period or Transition Period (begins when Desert Shield/ Storm service ends.)	•Normal grace period for borrowers who have not yet used initial grace period. •Six-month transition period for borrowers who have used grace period. (Interest accrues during transition period.) •Borrower who used military deferment gets grace period for any loan made after October 1, 1980.	•Normal grace period for borrowers who have not yet used grace period •Six-month transition period for borrowers who have used grace period. (Interest accrues during transition period.) •Reservists/National Guard entitled to grace period following * military deferment.	Six-month transition period. (Interest accrues during transition period.)
Extension for Students Returning to School	Up to a six-month extension to grace/transition period if borrower provides statement of intent to enroll at least half-time in postsecondary school during that period.	Up to six-month extension to grace/transition period if borrower provides statement of intent to enroll at least half-time or establishes eligibility for an in-school deferment at a GSL-participating postsecondary school during that period.	Up to a six-month extension to transition period if borrower provides statement of intent to enroll full-time in GSL-participating postsecondary school during that period.

* Note that Reservists and members of the National Guard are entitled to additional post-deferment grace periods on their Stafford Loans if they enroll in school and receive an in-school deferment.

- Up to three years of service as a full-time volunteer under Title I of the Domestic Volunteer Act of 1973 (ACTION programs). Again, the borrower must agree to serve for at least one year.

- Up to three years of full-time volunteer service (for a tax exempt organization) that is comparable to service as a Peace Corps or ACTION volunteer.

- Periods of unemployment totalling up to two years, if during those periods the borrower is seeking but unable to find full-time employment. The borrower must provide the lender with periodic documentation of attempts to find employment. The borrower may attend school during this period as long as the requirements for this deferment are met.

- Up to two years of service in an internship program required to begin professional practice or service.

Note special requirements for medical interns or residents

Up to two years for a **medical** internship or residency training program required by a State licensing agency before beginning professional practice or service in that State. The borrower must have a bachelor's degree or equivalent before beginning the program.

or

Up to two years of service in a **medical** internship or residency program which leads to a degree or certificate awarded by an institution of higher education, hospital, or a health care facility with postgraduate training. The program must require a bachelor's degree as a condition of acceptance.

Lenders *must* grant forbearance to medical or dental interns who have exhausted internship deferment and request forbearance

Note that the two-year limit for an internship or residency deferment does not include time spent in an in-school deferment during internship or residency before January 1,1990. Lenders are now required to grant forbearance of principal to medical or dental interns or residents whose programs exceed the two-year internship deferment. See "Forbearance" under Section Five for more information on this forbearance provision.

- Up to three years during which the borrower is temporarily totally disabled or during which the borrower is unable to work because he or she is caring for a spouse or other dependent who is temporarily totally disabled (including any combinations of such periods). Certification for this deferment must be provided by a doctor of medicine or osteopathy, or a licensed clinical psychologist.

- Up to six months of parental leave for each period during which a borrower is pregnant, caring for his or her newborn child, or caring for his or her adopted child immediately following adoption. The borrower must be unemployed and not attending school and must apply within six months after he or she leaves school or drops below half-time status.

"New borrower" definition

The term "new borrower" for Stafford, PLUS, and SLS loans, as clarified by the Higher Education Technical Amendments of 1987, has a very specific definition with regard to loan deferment. Keep this definition in mind, especially when you counsel students who may have multiple loans. For Stafford, PLUS, or SLS loans, a new borrower is one who, on the date he or she signs the promissory note, has no outstanding balance on a Stafford, SLS, PLUS, or Consolidation Loan made prior to July 1, 1987, for a period of enrollment beginning prior to July 1, 1987. Once a person qualifies as a new borrower, he or she remains one; the new borrower loan conditions will apply to any future loans.

The following additional deferments of repayment for a Stafford Loan apply *only* to new borrowers:

- Up to three years of active duty in the National Oceanic and Atmospheric Administration Corps.
- Up to three years of full-time teaching in a public or nonprofit private elementary or secondary school in a teacher shortage area as determined by the U. S. Department of Education. The teacher shortage area may be a geographic area with a shortage of teachers, or a specific grade level or subject-matter area in which there is a statewide shortage of elementary or secondary teachers. The borrower must provide the lender with a yearly certification that he or she is a full-time teacher and is teaching in a designated teacher shortage area. If the borrower's position does not retain its designation as one in a teacher shortage area, the borrower may still be eligible for the deferment if he or she continues to teach full time in the position that originally provided qualification for the deferment. (For more information about this

deferment, borrowers should be instructed to contact the chief State school officer or the appropriate guarantee agency in the State in which the borrower is teaching.)

- Periods of half-time study, *if* the borrower has obtained a Stafford Loan or SLS for that same enrollment period.
- Up to 12 months for mothers of preschool-age children who are going to work (or back to work) at a salary that is no more than $1.00 over the Federal minimum wage.

You may wish to reassure students with previous loans, who are concerned about changes in deferment conditions, that deferments listed on the promissory note cannot be removed; however, additional deferment conditions which could apply to *all* borrowers may be added by future legislation.

The following chart provides deferment information on Stafford, SLS, PLUS, and Consolidation Loans, and may be useful to students with previous loans. For more information on specific deferment provisions, the student should be advised to read carefully his or her promissory note and contact the appropriate lender to resolve any questions.

Title IV Guaranteed Loan Deferment Provisions

		STAFFORD LOAN (FORMERLY GSL) & SLS Programs		PLUS PROGRAM (Parent borrowers only)			CONSOLIDATION Loan Program
Deferment Condition*	Time Limit	Refinanced and Prior Borrowers[1]	New[2] Borrowers	Loans Made Prior to 8/15/83	Refinanced and Prior Borrowers	New[2] Borrowers	§428C of Pub. L. 89-329 as amended
Full-time study	none	Y	Y	Y	Y	Y	Y
Half-time study[3]	none	N	Y	N	N	Y	Y
Graduate fellowship study	none	Y	Y	Y	Y	Y	Y
Rehabilitation training	none	Y	Y	Y	Y	Y	Y
U.S. Armed Forces or Public Health Service, or;	3 years	Y	Y	Y	N	N	N
Nat'l Oceanic & Atmospheric Admin. (including Military and Public Health Service)		N	Y	N	N	N	N
Peace Corps	3 years	Y	Y	Y	N	N	N
Action	3 years	Y	Y	Y	N	N	N
Temporary total disability (borrower, spouse, or dependent)	3 years	Y	Y	Y	Y	Y	Y
Tax-exempt organization	3 years	Y	Y	Y	N	N	N
Teaching in teacher shortage area	3 years	N	Y	N	N	N	N
Eligible internship or[4] residency program	2 years	Y	Y	Y	N	N	N
Unemployment	2 years	Y	Y	Y	Y	Y	Y
Mother entering work force[5]	1 year	N	Y	N	N	N	N
Parental leave[6]	6 months	Y	Y	N	N	N	N
Parent PLUS borrowers[7]	.....	N/A	N/A	Y	Y	Y	N/A

* Y: Deferment Applies N: Deferment Does Not Apply

DEFERMENT PROVISIONS

THIS CHART IS TO BE USED FOR REFERENCE ONLY. REFER TO 34 CFR 682.210 OF THE GSL AND PLUS PROGRAM REGULATIONS IF YOU HAVE ANY QUESTIONS REGARDING A PARTICULAR BORROWER'S ELIGIBILITY TO RECEIVE A DEFERMENT.

1. Includes student PLUS borrowers and Consolidation Loans made prior to 11/1/83 pursuant to Section 439(o) of P.L. 89-329.

2. A "new borrower" is one who has no outstanding balance on a Stafford (formerly GSL), SLS, PLUS, or Consolidation Loan on the date he or she signed the promissory note and who received a loan under one of these programs either (1) for a period of enrollment beginning on or after July 1, 1987; or (2) disbursed on or after July 1, 1987.

3. A new Stafford or SLS borrower or a new PLUS parent borrower is eligible for deferment while engaged in at least half-time study at a participating school if the borrower obtains a Stafford or SLS loan for that period of enrollment.

4. Periods of service in an eligible internship program (See 34 CFR 682.210[g]); or serving in an internship or residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility that offers postgraduate training.

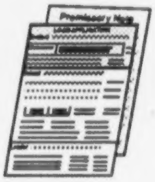
5. A mother with preschool-age children, who is entering or re-entering the work force, and is being paid no more than $1 above minimum wage.

6. Periods for which the borrower is pregnant, caring for his or her newborn child, or caring for his or her adopted child immediately following adoption. The borrower may neither be attending school nor be gainfully employed, and must have been enrolled on at least a half-time basis at a participating school at some time during the six months preceding the period of parental leave.

7. All PLUS parent borrowers also are eligible for deferment during periods when a student for whom the parent borrowed a PLUS loan is dependent and meets one of the following conditions for deferral: in-school status (full- and half-time), graduate fellowship, or rehabilitation training. (Please note: If the son or daughter is a half-time student, he/she must be a "new borrower" and be receiving a Stafford [formerly GSL] or SLS loan for the period of enrollment.)

SECTION THREE:
PLUS LOANS AND SUPPLEMENTAL LOANS FOR STUDENTS

Steps in the SLS/PLUS Loan Process



Eligible borrower (student or parent) applies for an SLS or PLUS loan and signs a promissory note. Loan period or period of enrollment usually corresponds to a semester, academic year, or specific course of study.

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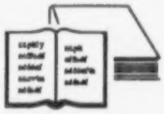

Student begins studies. Repayment begins within 60 days after disbursement; however, loan principal may be deferred during this in-school period, and accrued interest may be capitalized when repayment begins.

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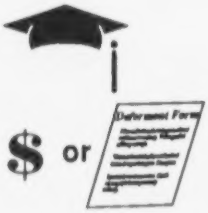

Student completes studies, drops below half-time status, or leaves school. Repayment begins. (Borrower may seek a deferment.)

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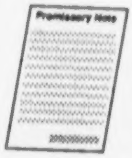


Borrower completes repayment.

LOAN LIMITS

A chart comparing loan limits for the GSL programs is found in Section Five.

- PLUS loans are limited to parent borrowers. A parent (a person's natural or adoptive mother or father, or legal guardian) may borrow up to $4,000 per academic year on behalf of each dependent student, to a maximum outstanding debt of $20,000 per student. The student's parents may borrow jointly or separately for the student. If they borrow separately, the loan limits on behalf of dependent students apply to the total of both loans, not to each loan individually. If the parents borrow jointly, both are liable for repayment of the loan as co-makers.

  These loan limits *do not* include amounts borrowed by the student under the Stafford Loan or SLS programs. In case of separation or divorce of a student's parents, either parent may borrow under PLUS—borrowing is not restricted to the parent who filled out the financial aid and/or loan application.

- Under SLS, a graduate or professional student or an independent undergraduate student enrolled at least half time may borrow up to $4,000 per academic year to a maximum outstanding debt of $20,000 *in addition to* the Stafford Loan and PLUS limits.

  Restriction on 1st year undergraduate SLS borrowers, based on length of program

  As the result of recent legislation, SLS loans amounts for first-year undergraduate students enrolled in a program of study of less than a full academic year in length will be limited to $2,500 for programs of at least 2/3 of an academic year, but less than a full year, and $1,500 for programs of less than 2/3 of an academic year, but at least 1/3 of an academic year. See Section Eight under "Requirements applicable to all schools" for more detail on this restriction.

If you determine, after considering the financial information of the family and the debt burden of the student, that due to exceptional circumstances the student's parents will be unable to borrow under the PLUS Program, and will not be able to provide the expected family contribution (EFC), you may allow a dependent undergraduate to apply for an SLS. For example, if a student's parents are on public assistance and cannot get a PLUS loan, you may allow a dependent undergraduate to apply for an SLS. You must put in writing your reason(s) for making the decision, provide supporting documentation, such as a letter of denial of a PLUS loan from a lender, and keep the information in the student's file.

Loan limits for SLS borrowers, including the reduced limits for borrowers in programs of less than a full academic year, now are restricted in terms of the time period to which they apply. Seven months or the school's academic year, whichever is longer, is now the minimum period to which SLS maximum loan limits can apply. See "Requirements applicable to all schools" under Section Eight for more information on this restriction.

In addition to the above limits, no borrower may receive a loan for more than the student's estimated cost of attendance less estimated financial assistance.

INTEREST RATES

The interest rate on PLUS loans disbursed before October 1, 1981, is 9 percent. The interest rate on PLUS loans disbursed from October 1, 1981, until November 1, 1982, is 14 percent. For loans disbursed between November 1, 1982, and June 30, 1987, the interest rate is 12 percent. Each PLUS loan is subject to the interest rate in effect when the loan was made; there is no connection to previous PLUS loans which may have different interest rates.

SLS and PLUS interest rates are variable; adjusted each year

SLS and PLUS loans for which the first disbursement is made on or after July 1, 1987, have a *variable* interest rate, to be determined on June 1 of each year according to a prescribed formula, and effective for the following award year. However, the interest rate for SLS and PLUS loans cannot exceed 12 percent. The interest rate for July 1, 1990, through June 30, 1991, is 11.49 percent. The interest rate for July 1, 1991, through June 30, 1992, is 9.34 percent. The interest rate applied to a loan will be the rate in effect at the time the loan is disbursed. However, students with SLS loans (or parents with PLUS loans) should understand that annual adjustments in interest rates may alter their monthly payments. The lender may keep the monthly payment amount the same, but increase (or decrease) the number of payments required, to reflect the increase (or decrease) in the variable interest rate.

No grace period for PLUS/SLS loans

There is no grace period for PLUS or SLS borrowers; interest begins to accrue on the date the loan is disbursed.

ADDITIONAL COSTS OF BORROWING

For loan applications signed by the borrower *on or after* July 1, 1987, the maximum insurance premium that a guarantee agency may charge the lender of an SLS or PLUS is a one-time fee, not to exceed 3 percent of the principal amount of the loan. If the lender passes this charge on to the borrower, the fee must be deducted proportionately from each disbursement.

There is *no* origination fee for SLS and PLUS loans.

REPAYMENT

SLS loans must be multiply disbursed

For PLUS borrowers (and SLS borrowers with loans made before October 1,1988), repayment of interest and principal begins within 60 days after the loan is disbursed, unless one of the deferment conditions described below applies. SLS loans made on or after October 1,1988, must be multiply disbursed, using the same procedures used for multiple disbursement of Stafford Loans; repayment of those SLS loans begins no later than 60 days after the last disbursement of the loan.

Capitalization of interest— SLS and PLUS

Deferment of PLUS and SLS loans is for principal only; the borrower must pay all interest that accrues on the loan after disbursement according to the terms of the repayment schedule, sent to the borrower when repayment begins. However, a lender may agree to capitalize the interest (add it to loan principal) when repayment of the principal begins or resumes. Interest that accrues during an in-school, graduate fellowship, or rehabilitation training deferment period may be capitalized no more frequently than quarterly. Interest that accrues during any other deferment period may be capitalized no more frequently than annually. Procedures for capitalization of interest under different deferments may vary. Borrowers should be instructed to read their promissory note and check with their lender or guarantee agency for details on capitalization of interest.

If a borrower agrees to pay interest during deferment, but fails to do so, the borrower will be considered delinquent. For an SLS loan, the borrower's failure to pay the interest accruing during an in-school deferment may be considered by the lender to be consent to capitalization of both delinquent interest and interest accruing during the remainder of the deferment. For other SLS deferments, the borrower must make an agreement with the lender for payment of interest. For more information on capitalization of delinquent interest payments on SLS loans, contact the guarantee agency in your State.

Repayment periods for PLUS and SLS loans are generally five to ten years, and periods of authorized deferment or forbearance are not counted in the five-to-ten-year period. The repayment *period* on a PLUS or SLS loan begins on the date of first disbursement of the loan, even though the first payment is not due until 60 days after the last disbursement of the loan. Since repayment of interest is not postponed, interest accrues from the date of first disbursement.

The minimum annual payment of the borrower's total of Stafford, PLUS, and SLS loans is $600. There is no prepayment penalty for PLUS and SLS loans.

If, after obtaining a PLUS or SLS, the student borrower or student for whom the parent borrowed enrolls less than half time, or does not enroll at all during the period for which the loan was intended, the entire amount is immediately due the lender. As with Stafford Loans, *it is the student's responsibility to notify the lender of the date on which he or she ceases to be enrolled at a participating school at least half time.* The school also must promptly inform the lender when a borrower drops below half-time status.

Remind students to keep lenders informed!

DEFERMENT FOR PLUS AND SLS

As with Stafford Loans, PLUS and SLS borrowers can postpone repayment of loans under certain conditions, but as mentioned earlier, the borrower is responsible for paying the interest on SLS and PLUS loans during periods of deferment. The borrower must request a deferment, usually by using a form provided by the lender. Because, as noted above, the repayment period on a PLUS or SLS loan begins on the date of first disbursement, a deferment covering such a loan would also begin on the date of first disbursement of the loan. For example, a borrower with a multiply disbursed SLS loan who qualifies for an in-school deferment enters the deferment period immediately upon the first disbursement of the SLS loan, even though the first payment would normally be due not later than 60 days after the last disbursement of the loan.

With the permission of the guarantee agency, an SLS or PLUS loan application certified by the school may be considered by a lender as a request for deferment of principal while the student is in school, *if there is a clear statement on the application that the borrower is requesting a deferment by checking a box or by signing the application.* The SLS application may serve as a request for in-school deferment of that loan and of any outstanding SLS loans previously made to the borrower by that lender. The school's certification on the SLS application is adequate documentation of the borrower's eligibility for an in-school deferment, and the anticipated graduation date is the end date of the in-school deferment.

Deferment conditions for SLS borrowers are the same as those for Stafford Loan borrowers.

SLS deferments same as Stafford

The following deferments are now available to all PLUS borrowers, effective October 17, 1986:

- Full-time study by the parent borrower at a school participating in the Stafford Loan, SLS, or PLUS Program (unless the borrower is not a U.S. national and is studying at a foreign school). This deferment is commonly referred to as an "in-school" deferment.

Special deferment for service in Operation Desert Shield or Desert Storm

  PLUS borrowers who served in Operation Desert Shield or Desert Storm are entitled to special consideration regarding this deferment. See the chart on page17 for an explanation of Operation Desert Shield or Desert Storm provisions as they apply to PLUS borrowers.

- Study by the parent borrower in an eligible graduate fellowship program, including a recognized graduate international fellowship program at a foreign university.
- Study by the parent borrower in a rehabilitation training program for disabled individuals.
- Up to three years during which the parent borrower is temporarily totally disabled, or during which the parent borrower is unable to work because he or she is caring for a spouse or other dependent who is temporarily totally disabled.
- Periods of unemployment totalling up to two years, if during those periods the parent borrower is seeking but unable to find full-time employment.
- Full-time study by a dependent student for whom the parent borrowed a PLUS (as long as the student is still dependent and meets the conditions for an in-school deferment):
  - ☐ at a participating school. Deferment is also permitted for a dependent student's half-time study, if the student is a new borrower and obtains a Stafford Loan or SLS for the same enrollment period.

- ☐ at an institution of higher education or a vocational school which is operated by an agency of the Federal Government. (Appendix B is a list of federally operated schools.)
- ☐ in an eligible graduate fellowship program, or in an approved rehabilitation training program for the disabled.

In addition, new PLUS borrowers may defer repayment during:

- ◆ Periods when the parent borrower is in school at least half time, if the parent borrower has obtained a Stafford Loan or SLS for the same enrollment period.

(See page 10-19 for the definition of a new borrower.)

SECTION FOUR: LOAN REFINANCING AND CONSOLIDATION

Refinancing and consolidation options must be presented to student borrowers during exit counseling. The following summary may assist financial aid administrators in providing information to students.

Once a borrower leaves school, he or she may consider loan refinancing and consolidation as options to make repayment easier. The student must contact his or her lender(s) to request these options, and any agreement to refinance or consolidate loans is between the borrower and lender. Students should keep in mind that loan consolidation does not increase Stafford or SLS loan limits; aggregate loan limits must include any portion of a borrower's Consolidation Loan used to repay a Stafford or SLS loan.

LOAN REFINANCING

Loan refinancing is only available to SLS and PLUS borrowers. There are three refinancing options: refinancing to combine payment, refinancing to obtain a variable interest rate, and refinancing to make a new loan.

- **Refinancing to combine loans into a single payment.** A lender may refinance all loans it holds to combine them into a single repayment schedule. The interest rate on the refinanced loan will be the weighted average of the rates of all the loans included, and the repayment period may not exceed ten years from the first day of repayment for the most recent loan included. The borrower is not charged an additional insurance premium for refinancing, and a new promissory note is not required.

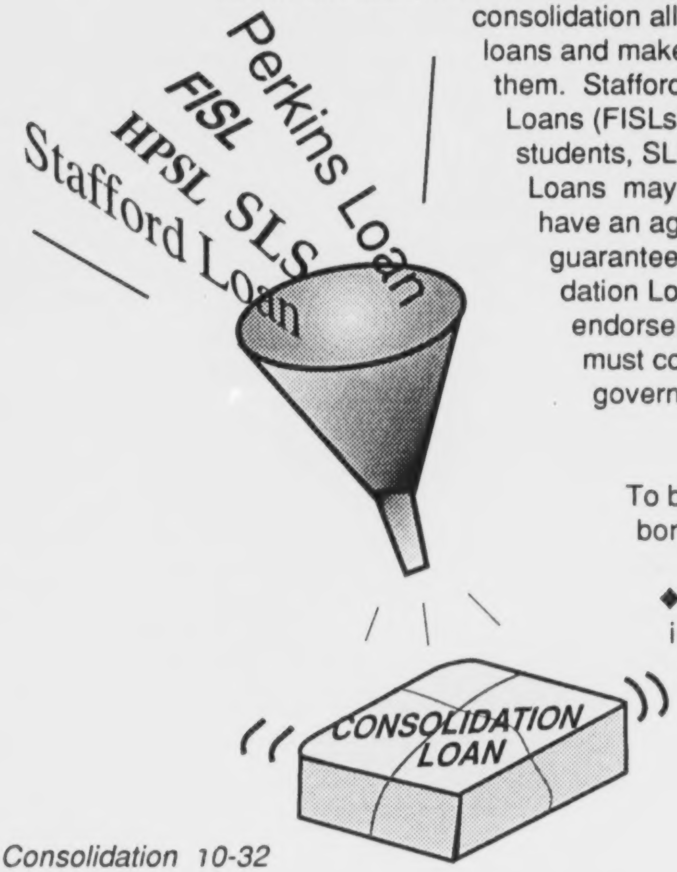
- **Refinancing to obtain a variable interest rate.** Outstanding fixed-rate SLS or PLUS loans may be refinanced at the variable interest rate. The borrower may be charged a fee of up to $100 for administrative costs, but no additional insurance premium may be charged.

- **Refinancing to discharge previous loans and make a new loan.** If the lender refuses the borrower's request for refinancing to obtain the variable interest rate, the borrower may apply to *another* lender for a new loan to pay off (discharge) the original loans held by the previous lender. The borrower may be charged an insurance premium, but may not be charged a refinancing fee. The repayment period of the original loans may not be extended, unless required by a change in the interest rate.

If any of the loans included in refinancing is a PLUS, the deferment conditions applicable to PLUS borrowers will apply to the new loan. If the loans are all SLS, SLS deferments will apply.

CONSOLIDATION LOANS

Loan consolidation enables a borrower with loans from different lenders to obtain one loan, with one interest rate and repayment schedule. Loan consolidation allows a lender to pay off the existing loans and make one Consolidation Loan to replace them. Stafford Loans, Federal Insured Student Loans (FISLs), Perkins Loans, PLUS loans to students, SLS, and Health Professions Student Loans may be consolidated only by lenders that have an agreement with the Department or a guarantee agency for that purpose. A Consolidation Loan must be made without security or endorsement, and the lender making the loan must comply with the laws and regulations governing consolidation of loans.



To be eligible for loan consolidation, a borrower must:

- have a debt of at least $5,000 in loans eligible for consolidation;
- be in the grace period or in repayment status on all loans being consolidated;

- not be more than 90 days delinquent on any loan being consolidated;
- not have another consolidation loan application pending;
- not have an unpaid balance on other student loans used to determine the borrower's repayment period that exceeds the amount of the Consolidation Loan.

Figuring interest rates for Consolidation Loans

The interest rate for Consolidation Loans is 9 percent or the weighted average of the interest rates of the loans consolidated (rounded to the nearest whole percent), whichever is greater. In determining the weighted average of interest rates of loans consolidated, the interest rate used is that in effect for each loan at the time the borrower's repayment obligations have been discharged on all loans selected for consolidation. For example, for a Stafford Loan at the 8 changing to10 percent rate, or an SLS with a variable rate, the interest rate used would be the rate at the time the Stafford or SLS loan was discharged by payment from the consolidating lender.

As with SLS and PLUS, the borrower is responsible for the interest on Consolidation Loans during periods of deferment; however, the lender may agree to capitalize the interest that accrues during the deferment. Deferments for Consolidation Loans are the same as those for PLUS borrowers (see the "Deferment" heading in Section Three for a list of PLUS deferments). Students should understand that consolidation of Stafford, Perkins, and SLS loans will result in fewer deferment options than were available to them under those loan programs, and may result in a higher interest rate. However, since Consolidation Loans may have repayment periods as long as 25 years, the borrower's monthly repayment amount may be reduced.

There are no insurance premiums or other fees for consolidation of loans.

Repayment of these loans begins within 60 days after consolidation. There are a number of repayment options, which may be based on graduated repayment schedules or on an income-sensitive repayment schedule. The repayment period varies from 10 to 25 years, depending on the amount consolidated and other student loans the borrower may have.

SECTION FIVE: COMPARING LOAN PROGRAMS

In Sections Two and Three the loan provisions that differ significantly among the Stafford, SLS, and PLUS programs were discussed; here, those that are essentially the same for all guaranteed student loan (GSL) programs are presented, along with comparison of some program elements.

In comparing loan programs, remember that many Stafford Loan provisions carry over from one loan to the next, as long as the borrower has outstanding loans. However, each SLS and PLUS loan is treated individually; terms and conditions applicable when the loan is made will apply to that loan, regardless of other SLS or PLUS loans outstanding. For example, the 7, 8, or 9 percent interest rate on a Stafford Loan will apply to all subsequent Stafford Loans, as long as previous loans have not been completely repaid; an SLS or PLUS loan is subject to the interest rate in effect when that loan was made, regardless of loans outstanding.

Jim got his first Stafford Loan in 1983, an 8% loan with deferments such as in-school, while on active duty in the Army, unemployment, etc. Each year he was in school, he got another Stafford Loan, and since he hadn't paid off the previous loans, the loans were linked—the same terms and conditions, for the most part, applied to all of them.

When Jim graduated, he got a good job, and paid off all his loans. Then he decided to go to graduate school, and again was able to qualify for a Stafford Loan. This loan, however, was not linked to the previous loans, because he'd paid them off. His new loan, made in 1988, has new provisions—such as the 8% rising to 10% interest rate.

Susan, an independent undergraduate student, got SLS loans in 1987, 1988, and 1989. The terms and conditions for these loans are those in effect when each loan was made—they are not necessarily linked in terms of interest rates or deferment conditions.

1987 1988 1989

Consolidation Loans may have different interest rates and deferment conditions from the loans included in the consolidation package. Borrowers should be reminded during exit counseling to look at differences in loan terms and conditions when considering loan consolidation. See the preceding section for information about consolidating loans.

The Higher Education Amendments of 1986 made significant changes in loan limits for Stafford, PLUS, and SLS loans: these limits apply to all three guaranteed student loan programs, regardless of when the loan was made.

Loan Limits for STAFFORD, PLUS, and SLS LOANS

	ANNUAL	CUMULATIVE
STAFFORD LOANS	**$2,625** first two years of undergraduate study	**$17,250** for undergraduate study
	$4,000 third year status or above	
	$7,500 for graduate/professional study	**$54,750** for graduate/professional study--includes undergraduate Stafford Loans
SLS	**$4,000** for a full academic year* for graduate/professional, independent undergraduate study	**$20,000** in addition to Stafford Loan and PLUS limits
PLUS	**$4,000** for each dependent student	**$20,000** for each dependent student

* See "Requirements applicable to all schools" in Section Eight for new restrictions on SLS loan limits.

PROVISIONS COMMON TO ALL LOANS

The following conditions are essentially the same for all GSL borrowers:

Forbearance

Forbearance —definition

If, because of poor health or other unanticipated personal problems, a borrower is willing but financially unable to make the required payments on a GSL, he or she may request the lender to grant forbearance. Forbearance is the temporary cessation of payments, allowing an extension of time for making payments, or accepting smaller payments than were previously scheduled. The lender may grant forbearance of principal, interest, or both. Forbearance requires a *written agreement* between borrower and lender. When forbearance is granted, the borrower is always responsible for repayment of accrued interest charges. While lenders do not have to grant forbearance (in most cases), they are encouraged to do so in order to prevent the borrower from defaulting on the loan.

New internship forbearance

Lenders are *required* to grant forbearance of loan principal to a GSL borrower serving in a medical or dental internship or residency program who has already received the two-year internship deferment. The forbearance is renewable at 12-month intervals while the borrower remains in the internship/residency program; however, the borrower must request forbearance in writing for each 12-month period.

Emergency administrative forbearance for Desert Shield/ Desert Storm mobilization

Until March 1, 1992, under provisions for emergency administrative forbearance for borrowers serving in Operation Desert Shield or Desert Storm, a lender could grant an emergency forbearance to a GSL borrower based on a phone call or written request from a close family member of the borrower. A request for forbearance after March 1, 1992, must be based on an agreement between borrower and lender. See Dear Colleague letter GEN 91-11 (February 1991) for more details on forbearance for GSL borrowers mobilized under Operation Desert Shield or Desert Storm.

Cancellation

If a GSL borrower dies or becomes totally and permanently disabled, the borrower's obligation to repay the loan is cancelled and the holder of the loan may not collect the loan from an endorser or from the borrower's estate. Certification of total and permanent disability from a qualified physician is required for loan cancellation. The endorser (cosigner) of a loan cancelled due to death or total disability is not obligated to repay the loan. However, if parents borrow jointly under the PLUS program as co-makers, the death or total disability of one parent does not relieve the other of responsibility for repaying the loan.

Reapplication for GSL after cancellation for disability

If a borrower whose GSL program loan debt was cancelled due to total and permanent disability later applies for a Stafford, PLUS, or SLS, he or she must:

- accept responsibility for any SFA program debt previously cancelled for disability,
- provide a physician's certification that he or she is able to work or attend school, and
- sign a statement affirming that the loan cannot be cancelled in the future based on present impairment, unless the borrower's condition deteriorates to the degree that total, permanent disability is met.

✓ P.L. 101-647

New limitations on bankruptcy

A borrower is not obligated to repay a loan discharged in bankruptcy. However, if a borrower files for bankruptcy under either Chapter 7 (liquidation of debt) or Chapter 13 (adjustment of debts of an individual) of the Bankruptcy Code, an SFA loan generally will not be discharged until seven years after the loan first became due. The seven-year period does not include periods of deferment or forbearance. The cosigner (or co-maker of a PLUS) or the endorser of a loan discharged in bankruptcy is obligated to repay the loan. A loan discharged in bankruptcy is not considered a defaulted loan.

Repayment by the Department of Defense

Currently, if a student borrower serves as an enlisted person in the U.S. Army, the Army Reserves, the Army National Guard, or the Air National Guard, the Department of Defense, as an enlistment incentive, will repay a portion of the loan. For more information the student should be directed to contact his or her local Army or Air National Guard recruiting office. This is a recruitment program and does not pertain to an individual's prior service.

Loan repayment under this program is made directly to the lender, and is not considered financial aid. Such a repayment is considered as income to the student when calculating loan eligibility.

Default

Remind students to keep lenders informed!

Most borrowers repay their loans on time, but some do fall behind on their payments, for a variety of reasons. You should counsel students to maintain contact with the lender if they have repayment problems, to avoid delinquency and default.

Late payment charges

When a scheduled payment on a Stafford, PLUS, or SLS loan is not made on time, the loan becomes delinquent. The lender is required to make repeated attempts to reestablish payment, including attempts to contact the borrower by phone and letter, the use of skip-tracing assistance, and the use of the guarantor's preclaims assistance and supplemental precaims assistance. If a borrower is more than 10 days late in making a payment, the lender may require the borrower to pay a late charge. The borrower may also be required to pay collection costs, such as attorney's fees and court costs, if payment of such costs is provided for in the borrower's promissory note.

Default—definition

For loans that entered delinquency before April 7, 1986, default is defined as the failure to make payments when due if that failure continues for a period of 120 days in the case of a monthly repayment schedule, and 180 days for less frequent installments. For loans that entered delinquency on or after April 7, 1986, default is the failure to make payments when due if that failure continues for a period of 180 days for a loan repayable in monthly installments, and 240 days for a loan repayable in less frequent installments.

Consequences of default

✓ P.L. 102-26

Elimination of statute of limitations on student loan collections

If the borrower's delinquency persists, the lender may accelerate the loan, that is, demand the entire balance of the loan in one payment. The lender may file a default claim with the guarantee agency, which reviews the lender's collection efforts before reimbursement. If the guarantee agency pays the default claim, the agency will continue collection efforts. These efforts will include reporting loan defaulters to national credit bureaus, and may include garnishing the defaulter's wages, withholding or "offsetting" part or all of a defaulter's Federal or State income tax refund, and filing suit against the borrower. If the defaulter is sued, garnishing of wages may be included in the court's ruling. Recent legislation (P.L. 102-26) provides for continuation of garnishment, offset action, or a lawsuit regardless of any Federal or State statutes of limitation that might otherwise have applied to such collection efforts. This law is in effect until November 15, 1997, and applies to any pending cases and outstanding debts. See Dear Colleague letter GEN 91-19 (June 1991) for more information on this new legislation.

A student with a defaulted loan is no longer eligible for any Federal student aid under the SFA programs. Even if a defaulted borrower's debt has been written off as uncollectable and closed out by reporting the principal

1992-93 SAR will note defaulted ED loans

amount to the Internal Revenue Service as taxable, the borrower is still considered to be in default, and ineligible for Federal student aid. If a borrower is in default on an SFA loan held by the Department of Education, and applies for Federal student aid, the Student Aid Report (SAR) received after application will indicate that the borrower is in default and thus not eligible for aid under the SFA programs. If the borrower has made satisfactory arrangements to repay the loan, the SAR will indicate that the borrower is eligible, but will include a warning that if scheduled payments are not made on the loan, future Federal student aid will be denied.

Collection activity resumed for defaulters mobilized under Desert Shield/ Storm

For borrowers mobilized to serve in the armed forces under Operation Desert Shield or Desert Storm, a guarantee agency could have suspended collection of defaulted loans until March 1, 1992. The borrower should have been informed not later than January 15, 1992, that collection activity would resume on March 1, 1992, if the borrower had not documented his or her eligibility for a deferment or signed a forbearance agreement with the lender. See Dear Colleague letter GEN-91-11 (February 1991) for more information about forbearance agreements for GSL borrowers affected by events in the Persian Gulf.

Once the student allows a loan to go into default, his or her opportunity to obtain a deferment is lost, and he or she will not be able to receive any Federal financial aid until the obligation is discharged, or satisfactory arrangements to repay the loan have been made with the lender or guarantor.

If a loan obligation has been discharged in bankruptcy after the borrower has defaulted, it is no longer considered to be in default. If the applicant can find a lender willing to make a loan, the student is eligible for additional aid.

Loan rehabilitation

There are some instances when a student or parent borrower who has defaulted on a guaranteed student loan or owes repayment on a grant may again borrow under SFA programs, if otherwise eligible. If the student or parent borrower has made satisfactory arrangements to repay the debt owed on a loan or grant, and provides the school with a statement to that effect from the appropriate guarantor in the case of a GSL, or from the school owed in the case of a grant, ICL, or Perkins Loan, the applicant would be eligible for a Stafford, PLUS, or SLS loan.

Expanded loan rehabilitation program

A Student Loan Rehabilitation Program is now available to borrowers who have defaulted on a GSL, and meet certain conditions. A guarantee agency, if it chooses, may allow a defaulter the opportunity to make 12 consecutive monthly payments of at least $50 on a defaulted guaranteed loan, and then consider the loan to be rehabilitated. The guarantee agency could then sell the rehabilitated loan to a lender. Once the loan is rehabilitated, it is no longer in default and the borrower, if otherwise eligible, may again receive assistance from SFA programs, and regain any remaining deferment benefits. Students with questions about loan rehabilitation should be instructed to contact the agency holding their defaulted loan or loans.

PROGRAM DIFFERENCES

The following differences between Stafford, PLUS, and SLS loans should also be noted:

Family contribution

A Stafford Loan applicant must have his or her family contribution (FC) as determined by an approved need analysis system, plus other estimated student aid awarded, subtracted from the cost of attendance at his or her school. If the student's remaining need is less than the Stafford Loan maximum, the student's Stafford Loan cannot exceed that lesser amount.

In contrast, income and FC do not have to be considered when determining the amount of a PLUS or SLS, although other estimated student aid awarded is considered. As with all SFA programs, the PLUS or SLS, when added to other student aid, cannot exceed the cost of attendance.

Insurance premiums and origination fees

A guarantee agency may charge lenders the same insurance premium rates for PLUS and SLS loans as for Stafford Loans. However, Stafford Loan borrowers pay a loan origination fee; there is no origination fee for a PLUS, SLS, or Consolidation Loan.

SECTION SIX: THE LOAN APPLICATION PROCESS

A borrower may obtain a GSL application from a guarantee agency, a lender, or a school that participates in the GSL program. The questions on the applications for Federal student aid concerning Stafford Loans are not intended as a substitute for a GSL loan application. If a student is unable to find a lender willing to make a Stafford Loan, he or she should contact the guarantee agency in his or her State of residence, or the guarantee agency in the State where the school is located. Each guarantee agency must serve as a "lender of last resort" or must make an agreement with an eligible lender to serve that function.

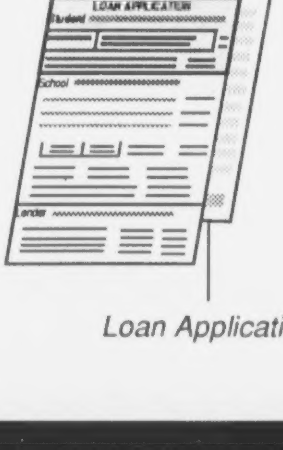
While applications will vary somewhat, a typical Stafford Loan application will contain three sections: one to be filled out by the borrower, one to be filled out by the school, and one to be filled out by the lender. PLUS and SLS borrowers will fill out a different loan application form, requesting similar information. Information common to all applications is discussed below.

The borrower is responsible for filling out—

- the student (borrower) portion of the loan application, and
- the promissory note.

Promissory note—definition

The promissory note is a legal document obligating the borrower to repay the loan. It may be part of the application or executed separately, after the application has been processed. The borrower's rights and responsibilities will be stated on the promissory note, or on other documents the borrower receives when the loan is made.



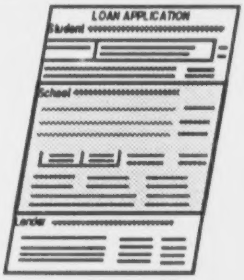
THE STUDENT'S (BORROWER'S) PORTION

In addition to basic information such as name, address, and Social Security number, questions on the student's portion of the application will seek information concerning the student's citizenship status (and parent's, if a PLUS borrower) and the student's intended enrollment status (full-time, half-time, etc.). The borrower will be asked about any education loans outstanding (including Consolidation Loans), and whether he or she has ever defaulted on a student loan. As a result of new legislation, the borrower will also be asked to provide his or her driver's license number.

The applicant will be required to sign a statement certifying that he or she does not owe a refund on a Pell Grant, Supplemental Educational Opportunity Grant (SEOG), or State Student Incentive Grant and is not in default on a Stafford Loan, SLS, PLUS, Income Contingent Loan (ICL), Consolidation Loan, or Perkins Loan received to attend any school. The applicant must sign a statement of registration status, indicating that he or she has registered with the Selective Service, if required to do so. The student also will be required to sign a statement certifying that the information provided on the application is correct and that any funds received will be used only for study at the school listed on the application. The applicant must indicate a choice of lender on the application. After filling out the applicant's portion of the application and signing it as indicated, the student (or parent) should submit the application and the Promissory Note (if the Note is part of the application) to the financial aid office.

Power of attorney for applicants in military service in Persian Gulf

If an applicant for a Stafford, SLS, or PLUS loan is in the armed forces serving on active duty in Operation Desert Storm and is located in the Persian Gulf, he or she may, through a power of attorney, designate another person to sign the loan application and the promissory note. A copy of the power of attorney and documentation indicating that the applicant is serving in the Persian Gulf must be attached to the application.



THE SCHOOL'S PORTION

School determines eligibility

You are responsible for determining the student's cost of attendance and estimated financial aid. You are also expected to confirm the student's dependency status and Social Security number. *Thus the school, and not the lender, determines the student's eligibility for a Stafford, SLS, or PLUS loan.* (An eligible foreign school is also responsible for this analysis, although it generally contracts with a guarantee agency or a consultant to provide the analysis.)

You must determine whether the student previously attended another eligible institution and, if so, you must request a financial aid transcript for the student. You may certify the loan application before receipt of the student's financial aid transcript, but you may not release loan proceeds to the student until the transcript is received. (In the case of a PLUS, you may *not* certify the application until the financial aid transcript is received.)

The Emergency Unemployment Compensation Act of 1991 (P.L. 102-164) requires that the borrower provide the lender with his or her driver's license number (if any) at the time of loan application. A Notice of Proposed Rulemaking is being developed to address this and other requirements of P.L. 102-164.

Financial aid administrators now may refuse to certify an otherwise eligible GSL borrower's loan application, if the reason for the refusal is documented and provided in writing to the student. This includes the authority to refuse to certify a loan application if you believe the student is unwilling to repay the loan for which the application is intended. Similarly, you may certify a loan for an amount less than that for which the student would otherwise be eligible, if your reasons are documented and explained to the student in writing. This authority was provided in the Higher Education Technical Amendments of 1991 (P.L. 102-26). Please refer to Dear Colleague letter GEN 91-19 (June 1991) for more detail.

✓ P.L. 102-26

Increased school control over loan certification

Questions on the school's portion of the application will require determination of the following:

Dependency status

In order to determine the sources of income available to a student, you must establish his or her dependency status. The Higher Education Amendments of 1986 revised the definition of an independent student. The new definition, clarified by the Technical Amendments of 1987, applies to Stafford, SLS, and PLUS loans for periods of enrollment beginning on or after January 1, 1987, and is effective for Pell Grant and campus-based programs beginning with the 1987-88 award year.

Dependency status—see Chapter 2

For more information on dependency status, see Chapter Two of the *Handbook*.

Adjusted gross family income (if required by the guarantee agency)

For a dependent student, adjusted gross family income means the adjusted gross income reported on the appropriate Federal income tax return of the student, his or her spouse (if any), and the student's parents. For an independent student, you consider only the income of student and spouse.

The period for which income must be determined is the calendar year *preceding* the period of enrollment for which the loan is intended. For example, if the loan is sought for the academic year July 1, 1992 through June 30, 1993, you must determine the adjusted gross family income for calendar year 1991. If you decide, on the basis of professional judgment, to use current year income rather than income from the previous calendar year as a basis for determining the family's financial need, the reason for the adjustment must be documented in the student's file.

Loan period or period of enrollment

Information concerning "estimated cost of attendance," "estimated financial assistance," and "expected family contribution" must relate to the loan period. The period of enrollment or loan period referred to on the application is the period for which the GSL loan is intended, and must coincide with one or more of a school's academic terms, such as academic year, semester, trimester, or quarter. The enrollment period and academic term must be consistent for all SFA programs. For example, at a school where Pell Grants are calculated for a 900-hour program, and a 900-hour academic year, the same periods must be used for the period of enrollment on the GSL application.

The *minimum* period for which a school may certify a loan application is—

Minimum enrollment period for loan certification

- at a school that measures academic progress in credit hours and uses a semester, trimester, or quarter system, a single academic term (for example, a semester or quarter); or
- at a school that measures academic progress in clock hours, or that measures academic progress in credit hours but does *not* use a semester, trimester, or quarter system, the lesser of (1) the academic year as defined by the school in accordance with the General Provisions regulations, (2) the length of the student's program at the school, or (3) the remaining portion of the student's program that exceeds the school's academic year.

The *maximum* period for loan certification is generally the school's academic year.

Only if a summer school session overlaps two academic years do you have the discretion to decide to which of the two academic years in question the loan's enrollment period will apply. Whichever academic year is chosen, the same year must also be used for awarding campus-based aid for that period.

If a student's loan is certified after the beginning of an enrollment period, the GSL loan may be made retroactive to cover the entire period of enrollment. For example, a student is admitted to a degree program contingent on the receipt of an acceptable academic transcript, and begins the academic term on September 6. The school receives the transcript on October 15; the school may certify the student for a period of enrollment covering the entire term (September 6 through December 20).

If tuition and fees are charged to the student at the beginning of a program that is longer than an academic year, the cost of attendance for GSL programs should include the full amount of the tuition and fees charged in the *period of enrollment* in which the loan is made. For example, a school with a 1,350-hour program defines its academic year as 900 hours and charges its students the full $3,000 in tuition and fees at the beginning of the program. In this case, an enrolling student usually would be eligible for two Stafford Loans, because the program is longer than one academic year. The tuition and fee charge for the first Stafford Loan would be $3,000; there would be no tuition and fee component in the cost of attendance for the second Stafford Loan.

Cost of attendance

COA

An estimate of the cost of attendance (COA) at your school is required as part of the process of determining financial need. For the Stafford Loan, SLS, and PLUS programs (and for campus-based programs), the cost of attendance includes—

- tuition and fees, including costs for rental or purchase of equipment or supplies required for the particular course of study

  Note that cost of professional licensing examination fees can be included in the COA *only* if those examinations are a requirement of the degree or certificate program.

- the insurance premium and origination fee on the loan (if applicable)

  Remember that if these fees are included in the COA, the full loan amount is used in estimating financial assistance.

- an allowance for books, supplies, transportation, and miscellaneous personal expenses (these expenses may not include purchase of a car)

- an allowance for room and board costs during periods of enrollment, consisting of (1) not less than $1,500 for a student without dependents who is living at home with parents; (2) a standard allowance for students without dependents living in institutionally owned or operated housing, based on the school's normal room and board costs for most students; and (3) for all other students, an allowance of not less than $2,500, based on reasonable expenses for room and board

- for correspondence study programs, tuition and fees only, and if required for residential training, books and supplies, travel, and room and board during the residential training period

- reasonable costs associated with a formal program of study abroad, if foreign study is part of the student's academic program

- for a student with one or more dependents,* an allowance based on reasonable expenses for those dependents, based on their ages

- for a disabled student, an allowance for those expenses—including transportation expenses—related to his or her disability which are not provided by other assisting agencies (see Dear Colleague GEN 92-1 [January 1992] for new information on the coordination of financial assistance for disabled students).

NOTE: For a student receiving instruction through telecommunications technology, the cost of attendance may not include rental or purchase of telecommunications equipment.

Cost of attendance requirements are described in detail in Chapter Two and Chapter Five of this *Handbook.*

Expected family contribution

EFC

In the past, the family contribution was not considered in determining a student's eligibility for a Stafford Loan if adjusted gross family income was $30,000 or less. The Higher Education Amendments of 1986 require that a determination of expected family contribution (EFC) be made for *all* Stafford Loan applicants.

CM determines Stafford Loan eligibility

Previously, an approved need analysis system such as the Uniform Methodology was used to determine the family contribution (FC) for Stafford Loan applicants. Beginning with the 1988-89 award year, a single need analysis system, the Congressional Methodology (CM), was instituted to determine eligibility for the campus-based and Stafford Loan programs. Section Two of Chapter Two of the *Handbook* discusses the need analysis system. For detailed information on how the FC is calculated, see *The Congressional Methodology, 1992-93.*

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*The term "dependent" can include elderly or disabled adults (including the student's spouse) as well as children.

A financial aid administrator may use his or her professional judgment to adjust the FC to account for unusual circumstances affecting the student or the student's family. Such adjustments, however, must be documented in the student's file.

Note that income realized from the proceeds of the sale of farm or business assets (capital gain) is excluded from the family income of a student in calculating that student's FC under the Stafford Loan Program, *if* the sale results from a voluntary or involuntary foreclosure, forfeiture, or bankruptcy. Instructions concerning these exclusions of income are provided on the Federal application and on all multiple data entry forms.

Other loans can offset EFC for Stafford Loans

Loans made to a student under SLS, on behalf of a student under PLUS, non-subsidized Stafford Loans, loans made by a school to assist the student, and State-sponsored and private education loans all can be used to offset (substitute for) part or all of the student's EFC for Stafford Loans and other need-based SFA programs. Here is an example of how non-Federal aid may be substituted for the EFC in determining a student's financial aid package.

John, a student at Grist Mill College, has a COA of $7,000, and an EFC of $1,500. John's financial aid includes a Pell Grant of $1,500, an SEOG of $500, a Futuri Scholarship of $500, and a State-sponsored loan of $2,000. His estimated financial assistance (EFA) of $4,500 added to his EFC ($1,500) would appear to leave him with unmet need of $1,000.

COA	EFA	EFC	unmet need
$7,000	$4,500	$1,500	$1,000

However, because the State-sponsored loan may offset (replace) the EFC, Grist Mill may approve John's Stafford Loan application for $2,500.

COA	EFA	EFC	StaffordLoan
$7,000	$4,500	0	$2,500

Note that the $2,000 State loan is greater than the EFC—the negative EFC is set to zero. Notice that $2,500 is the maximum Stafford Loan amount that Grist Mill may approve in this example.

You may want to establish need for the Stafford Loan before other loans are figured into the aid package—you must do so in the case of SLS and PLUS loans—to enable the student to receive the maximum Stafford Loan amount.

No EFC required for SLS/PLUS

Calculation of an expected family contribution is not required of a PLUS or SLS borrower.

Estimated financial assistance

In determining the amount of Stafford Loan eligibility, you must subtract from the cost of attendance both the EFC and the estimated financial assistance for the loan period in question. As noted earlier, for SLS and PLUS you subtract only the estimated financial assistance from the cost of attendance, since an EFC is not required. In estimating financial assistance, you must consider State aid, scholarships and other awards, and any other Federal financial aid for which the student would be eligible, even if the student has not yet applied for the aid. ROTC scholarships and subsistence allowances also should be included in estimating financial assistance. See Section Two of Chapter Two of the *Handbook* for more information on estimated financial assistance. Remember, *all* student employment that is awarded based on financial need (regardless of whether the award originates in the financial aid office) is considered as estimated financial assistance in determining Stafford Loan eligibility. (Student earnings which are not need-based are considered as income in determining eligibility.)

The following illustration summarizes Stafford Loan eligibility determination:

COST OF ATTENDANCE — ESTIMATED FINANCIAL ASSISTANCE (includes Pell, SEOG, other Federal student financial aid, and non-Federal aid, such as scholarships) — EXPECTED FAMILY CONTRIBUTION = NEED FOR STAFFORD LOAN

Once the need for a Stafford Loan is established, PLUS, SLS, non-subsidized Stafford Loans, school loans, and State-sponsored or other private loan programs can be used to offset (replace) all or part of the EFC.

Calculating treatment of veterans benefits

If an independent student is receiving veterans educational benefits, the portion of those benefits that is not included in calculating the FC must be considered as estimated financial assistance in determining Stafford Loan eligibility. In the case of an SLS or PLUS (for which no FC is required), the entire amount of those benefits must be counted as estimated financial assistance. See Section Three of Chapter Five of the *Handbook* for more information on counting veterans benefits.

Stafford Loans cannot exceed need

Formerly, a student whose unmet need was $500-$999 could receive a Stafford Loan with Federal interest benefits for a loan up to $1,000, subject to the lender's approval, even if that amount exceeded the student's loan eligibility. Now, students may *not* receive an interest-subsidized loan in excess of their need; this means, for example, that a student whose unmet need is $600 may apply, and be certified for, a Stafford Loan with Federal interest benefits for no more than $600.

SLS eligibility may be summarized as follows:

COST OF ATTENDANCE	—	ESTIMATED FINANCIAL ASSISTANCE (includes Pell, SEOG, Stafford, other Federal student financial aid, and non-Federal aid, such as scholarships)	=	ELIGIBILITY FOR A SUPPLEMENTAL LOAN FOR STUDENTS

An SLS loan cannot exceed the student's cost of attendance minus: the total of any aid the student is eligible to receive from the Pell Grant and Stafford Loan programs; aid from State aid, scholarships and other awards; and other Federal financial aid for which the student is eligible. A school may exclude a Stafford Loan of less than $200 from estimated financial assistance if, for the purpose of certifying an SLS, the school decides not to certify the Stafford Loan. Pell Grant and Stafford Loan amounts are included on the SLS application as "estimated financial assistance" whether or not the student accepts the aid. However, the SLS may be substituted for all or part of the EFC used to determine the student's need for other Federal aid.

Additional factors in determining loan eligibility

Before certifying a Stafford Loan application, you must determine whether undergraduate applicants are eligible for a Pell Grant, if your school

Stafford *and* SLS applicants now must have eligibility determined for Pell

participates in the Pell Grant Program. For SLS loans certified on or after August 17, 1988, an undergraduate SLS borrower who has not received a first bachelor's degree must also have his or her Pell Grant eligibility determined before the SLS application may be certified. If the SLS or Stafford Loan applicant is eligible for a Pell Grant, he or she must apply for the grant before the Stafford Loan or SLS application may be certified.

Quick Pell *ineligibility* determination

You may assume a student will *not* receive a Pell Grant if:

- he or she has a Student Aid Report (SAR) showing a Pell Grant Index (PGI) of 2200 or higher
- he or she provides you with a completed Federal application or one of the MDE* applications, and you determine that his or her PGI is 2200 or higher by using a certified need analysis system* or by performing a hand calculation using worksheets or a desk-top calculator programmed to produce an accurate PGI.

Pell eligibility determination

You may consider a student eligible for a Pell Grant if:

- he or she has a SAR showing an PGI of less than 2200
- he or she applies for the grant, using a Federal application or an MDE form, and you make a preliminary determination of eligibility using a hand calculation or a certified need analysis system
- he or she provides you with a completed Federal application or MDE application before submitting the application to the central processor or MDE servicer, and you make a preliminary determination of eligibility using the methods described above. You must ensure that the application is submitted for processing.

Documentation of Pell Grant eligibility or ineligibility must be kept in the student's file.

If the student is eligible to receive a Pell Grant, the amount for which the student is eligible must be included in the estimated financial assistance in determining the Stafford Loan amount and the SLS amount, whether or not he or she actually accepts the Pell Grant. The Pell eligibility determination requirement does not apply to applicants for PLUS loans.

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* See the glossary in the Introduction to the *Handbook* for the definitions of these terms.

SLS applicants must have eligibility determined for Stafford Loan

In addition to receiving a determination of Pell Grant eligibility, an SLS applicant must also have his or her need for a Stafford Loan determined. If you do not have a SAR with an FC or an MDE form with an EFC, you may use a certified need analysis system or make a hand calculation to determine the FC, and document the student's eligibility or ineligibility for the Stafford Loan based on the resulting EFC. If the student is determined to have need for a Stafford Loan of $200 or more, a Stafford Loan application must be filed before the SLS application can be certified. If the student is ineligible for the Stafford Loan or his or her need is less than $200, you may certify the SLS application.

As mentioned above, you should determine Stafford Loan eligibility based on the student's cost of attendance, taking into consideration the EFC and other financial assistance. Once Stafford Loan eligibility is determined, eligibility for SLS can be determined, as illustrated on the following page.

Karen is a freshman at Magenta Sands Community College. Her COA is $5,000 and her EFC is $500. She is eligible for a Pell Grant. Her need calculation for a Stafford Loan looks like this:

$5,000 - COA
less $ 500 - EFC
less $1,000 - EFA (Pell Grant)

$3,500 - need for a Stafford Loan

The maximum Stafford Loan Karen could receive is $2,625, leaving $875 in unmet need ($3,500 - $2,625 = $875).

Karen's SLS calculation would look like this:

$5,000 - COA
less $3,625 - EFA ($1,000 Pell plus $2,625 Stafford)

$1,375 - SLS eligibility

Karen is eligible for an SLS of $1,375 and a part of that SLS ($875) can be used to fill her remaining unmet need.

Karen's Stafford Loan application will look like this:

$5,000 - COA
less $ 500 - EFC
less $1,875 - EFA ($1,000 Pell plus $875 SLS)

$2,625 - need for Stafford Loan

Karen's SLS application will be identical to the SLS calculation, shown above.

Loan certification requirements

Default Initiative Regulations

Before certifying a Stafford or SLS loan, you must ensure that these new regulatory and statutory restrictions have been met:

Default reduction requirement

- If your school's cohort default rate exceeds 30 percent for the current year, you must delay certification for *first-time Stafford and SLS borrowers* long enough so that delivery of loan proceeds will take place at least 30 days after the beginning of the enrollment period for which the loan is intended.

New certification requirements for SLS loans

- You may not certify an SLS loan application for an *undergraduate student* if your school's default rate is 30 percent or greater. This restriction applies to all loans certified on or after January 1, 1990. (However, if the student was enrolled in a program on the date default rate notification was received, and had received an SLS loan for that program, he or she may receive additional SLS loans to complete the program.)

  See Section Eight, under "Requirements of schools with default rates of 30.0 percent or more," for a more detailed explanation of the above two bullets.

- You must certify that the loan disbursement schedule provided with each application meets the new disbursement requirements for Stafford and SLS loans (see Section Eight under Default Reduction Initiatives for more information on the loan disbursement requirements).

- Your school must comply with the reduced annual SLS loan limits for first-year undergraduate students enrolled in programs less than a full academic year in length. Those limits are: $2,500 for programs of at least 2/3 of an academic year, but less than a full year; and $1,500 for programs of less than 2/3 of an academic year, but at least 1/3 of an academic year. This restriction applies to all loans certified on or after January 1, 1990, and will remain in effect until October 1, 1996.

- You must ensure that the student has a high school diploma or GED before certifying an SLS loan application.

The appropriate guarantee agency or agencies should have provided your school with an amended loan application, or an addendum to its current application, to reflect these new certification requirements. For more information on the new statutory and regulatory loan certification requirements, see Section Eight.

In addition to the new requirements described above, a school may not certify a Stafford, PLUS, or SLS loan application until the following requirements are also met:

- The student's dependency status, enrollment status, and satisfactory academic progress have been established.
- A student (or the student and parent in the case of a parent PLUS loan) certifies that he or she is not in default on a Perkins Loan, Stafford Loan, SLS, PLUS, Income Contingent Loan, or Consolidation Loan made for attendance at *any* institution, and does not owe a refund on any SFA grant or scholarship program received for attendance at any institution. Financial aid transcripts for students who indicate previous attendance at another eligible school are required as part of this certification. (See Chapter Two of the *Handbook* for more information on financial aid transcripts.)
- A determination of Pell Grant eligibility is made for Stafford Loan and SLS applicants, and a Stafford Loan eligibility determination is made for SLS applicants.
- The school reviews its academic and financial aid records, verifies the information certified by the borrower (and the student, in the case of a PLUS) concerning previous loans or grants, and determines that the total loan or loans certified for that period of enrollment will not exceed annual or maximum loan limits and (1) for Stafford Loans, the student's financial need as determined by an approved need analysis system; (2) for PLUS or SLS, the student's cost of attendance less estimated financial assistance. Students who in any academic year borrow more than the annual or aggregate maximum loan limits for which they are eligible under Stafford, SLS, or Perkins Loan programs will lose their eligibility for further SFA program assistance for that academic year.

Loan amount cannot exceed:

for Stafford Loans, the student's need

for PLUS and SLS, COA less estimated financial assistance

- Conflicting information with regard to verification requirements is satisfactorily resolved. (See the "Verification Requirements" section under Section Ten.)
- The school can provide documentation of the student's statement of registration status.
- The school has provided loan counseling for first-time borrowers.

School is responsible for loan certification

You should be aware of the responsibility incurred in certifying the loan application. If you incorrectly certify that an ineligible student is eligible, your school will be responsible for purchasing the loan incorrectly made, and for reimbursing the Department of Education for all interest and special allowance paid on behalf of the borrower. If you certify that a student is eligible for a larger loan than he or she is entitled to, your school will be responsible for reimbursing the lender for the difference between the loan amount certified and the loan amount to which the student is entitled. Your school must also reimburse the Department for the excess interest and special allowance payments made on the incorrect loan amount. (See the GSL regulations, Section 682.609, for more information on remedial actions.)

Some of the most common errors schools make in certifying loans are:

- Certifying loans for more than the amount allowed;
- Certifying loans to students not making satisfactory academic progress;
- Certifying loans to students in ineligible programs or attending an ineligible branch campus;
- Certifying loans to ineligible students, such as foreign students on student visas; and
- Certifying more than one application for the same student for the same loan period, resulting in loans in excess of need and in excess of loan limits.

If a Stafford Loan applicant has been selected for verification, you have two options. You may either—

- refuse to certify the Stafford Loan application until verification is completed, or
- certify the application, if there is no information which conflicts with that provided by the applicant, but you may not deliver Stafford Loan proceeds to the borrower until verification is completed.

If the school has received Stafford Loan proceeds for a student, funds must be returned to the lender if the verification process is not completed within 45 days of the school's receipt of the loan proceeds. See "Verification Requirements" under Section Ten for more information on verification.

After completing the school's portion of the application, you certify that the information you have provided is correct, and that the information provided by the student or parent (if the loan is a PLUS) is accurate to the best of your knowledge. Keep one copy of the application on file. The student (or the school on behalf of the student) sends the other copies of the application to the lender along with the promissory note, if included. The date of loan certification is the date the school official signs the loan application and submits it to the lender—unless the school uses another means of documenting the date it submits the application to the lender.

Handling overawards

Return to lender of award in excess of need—

An overaward is an award in excess of need, and usually occurs when, after determining estimated financial assistance and certifying a Stafford or SLS loan, the financial aid administrator learns of additional financial assistance available to the student, such as a grant or scholarship. Until recently, schools were not required to return Stafford or SLS loan proceeds if, after certifying the loan, the school became aware of additional financial assistance. The law now requires that an overaward of Stafford or SLS loan proceeds be promptly returned to the lender, taking into account other financial aid obtained by the student.

before loan proceeds arrive at school

If, after the loan has been certified, but before the loan proceeds are received, the school becomes aware of additional financial assistance for the student that could result in an overaward, the school can request that the lender cancel or reduce the Stafford or SLS loan. The school also has the option at this point of reducing or cancelling aid over which it has control, such as institutional or campus-based aid.

after disbursement has been received at school

When an overaward is identified after the loan proceeds have been received by the school, the school may attempt to reduce or eliminate the overaward by using a student's SLS, PLUS, or non-subsidized Stafford Loan to replace the family's EFC. *However, the school must repay Stafford or SLS funds to the lender to eliminate the overaward before adjusting or cancelling a student's undisbursed campus-based aid.*

If the overaward can be eliminated by reducing or cancelling subsequent disbursements of the loan, the school may do so and deliver the first disbursement to the student. The school must inform the lender of the reduced award, and request cancellation or reduction of subsequent disbursements.

If the student is ineligible for the entire loan disbursement, and the overaward cannot be reduced or eliminated, the school must return the loan proceeds to the lender, and the lender must credit to the borrower's account the portion of the insurance premium (and origination fee, if a Stafford Loan) attributable to the amount returned.

Options for return of *part* of disbursement

If the student is ineligible for only a part of the disbursement, the school has two options. (1) The school may return the loan proceeds to the lender and request a new check for the correct amount. If the school chooses this option and asks for a new disbursement, the student will pay only for the reduced insurance premium and origination fee (if applicable) attributable to the reduced loan amount. (2) The school may have the student endorse the loan check or, in the case of a loan disbursed by electronic funds transfer, obtain the student's authorization to release loan funds. The school may then credit the student's account for the amount for which the student is eligible, and promptly refund to the lender the portion of the disbursement for the which the student is ineligible. *The school and not the student must return the excess loan proceeds.* If the school has credited the loan proceeds to the student's account because the student is eligible for a portion of the disbursement, the lender does not have to refund the portion of the insurance premium and origination fee attributable to the amount returned.

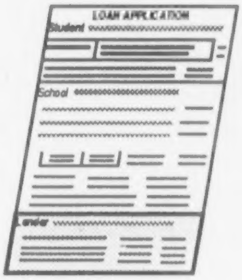
The following example shows possible resolutions of an overaward:

Stan's Stafford Loan was certified for $2,000—$1,000 for each semester of the school year. Stan received a scholarship for $500 after the first disbursement of $1,000 was received by his school. Stan's need for the loan period is now $1,500. Stan's school could:

- return the loan proceeds to the lender and ask for a revised loan amount of $1,500 in two $750 installments;
- deliver $750 of the first disbursement to Stan, return $250 to the lender, and request the lender to reduce the second disbursement by $250, in order to disburse the revised loan amount in two equal installments; or
- deliver $500 of the first disbursement to Stan, and return the remaining $500 to the lender, to eliminate the entire overaward in the first disbursement. The second disbursement would be for $1,000.

When an award in excess of need is identified after all Stafford or SLS loan proceeds have been delivered to the student, an overaward does not exist and a refund to the lender is not required.

Note: These instructions for handling overawards do not apply to Stafford or SLS loans made to cover the cost of attendance at a school outside the United States or to PLUS or Consolidation Loans.



LENDER'S PORTION

The lender reviews the Stafford Loan, SLS, or PLUS application, and completes the promissory note and the lender portion of the loan application. Provisions of the Emergency Unemployment Compensation Act of 1991 (P.L. 102-164) require the lender to include in the promissory note, or other written agreement, the borrower's authorization for entry of judgment against the borrower if he or she defaults. This consent allows the lender to go to court and seek a judgment against the borrower in case of default, without having to sue the borrower.

A lender may not discriminate against an applicant on the basis of race, national origin, religion, sex, marital status, age, or handicapped status. However, a lender may decline to make loans to students who do not meet the lender's credit standards, or to students at a particular school, or enrolled in a particular program of study. A lender may require an endorser to sign the promissory note, if permitted to do so by the guarantor. A lender may decline to make GSL loans for less than a specified amount; for example, a lender could refuse to make a loan for less than $500.

Provisions of P.L. 102-164 also require the lender to obtain a credit report for Stafford, SLS, or PLUS loans made to applicants who are 21 years or older. A Notice of Proposed Rulemaking is being developed to address this and other requirements of P.L. 102-164.

Lender of last resort provision

A student who is otherwise eligible for a Stafford Loan and has been unable to find a lender willing to make such a loan should contact the guarantee agency in his or her State of residence or the guarantee agency in the State in which the student's school is located. The guarantee agency either must designate an eligible lender to serve as a lender of last resort or must itself serve in that capacity. However, the lender of last resort, as with any other lender, may refuse to make the loan if the borrower fails to meet the lender's credit standards.

The lender must receive approval of the guarantee agency for a Stafford Loan to be eligible for payment of Federal interest benefits. A lender or guarantee agency may not make or guarantee a Stafford Loan, PLUS, or SLS until it reviews its records and finds no indication that the applicant (or student, if the loan is a PLUS) is in default on an SFA loan made for attendance at *any* institution. Once guarantee agency approval is obtained, the lender will send the Stafford Loan or SLS loan proceeds (or the first disbursement of the proceeds) to the school's financial aid office for delivery to the student, or will send the proceeds directly to the student if he or she is enrolled in a foreign school. For a PLUS, loan proceeds are sent to the student's parent, and the lender has 30 days to notify the school that the proceeds have been sent.

Loan Disclosure Statement required

The lender must also give the borrower a copy of the loan Disclosure Statement when the first loan disbursement is made. The Disclosure Statement will provide the borrower the following information:

- the name and address of the lender and the address to which communications and payments should be sent
- the length of the grace period
- the stated interest rate on the loan
- the amount of the loan, the insurance premium, the loan origination fee, and any other charges, and how they are to be paid
- the yearly and cumulative maximum amounts that may be borrowed
- a statement that information concerning the loan (including the amount of the loan and the date of disbursement) will be reported to a credit bureau
- when repayment will begin, and when accrued interest must be paid
- the minimum annual payment required, and minimum and maximum repayment periods
- an estimate of the monthly payment due the lender, based on the borrower's cumulative outstanding debt (including the loan applied for)
- refinancing and consolidation options
- a statement of the borrower's right to prepayment
- a statement of circumstances under which repayment of principal or interest on the loan may be deferred
- notice of the Department of Defense repayment option (as an enlistment incentive)
- definition of default (including its consequences)
- effect of the loan on eligibility for other student assistance
- an explanation of borrower costs incurred in making or collection of the loan.

The information on the Disclosure Statement will be the most up-to-date information concerning the loan, and will reflect any changes in laws or Federal regulations that may have occurred since the promissory note was signed. If there is any conflict of information between the promissory note and the Disclosure Statement, the information on the Disclosure Statement applies. If the student has questions about the statement, or wishes to cancel the loan, he or she should contact the lender immediately and should *not* endorse a loan check or an electronic funds transfer form authorizing transfer of loan proceeds to his or her account.

SECTION SEVEN:
PAYMENT TO THE STUDENT

The lender disburses loan proceeds to the school for delivery to the student. Loan proceeds may be credited to the student's account, paid directly to the student, or a combination of both. The steps required before payment is made to the student's account (or to the student directly) are outlined below.

It is the lender's responsibility to provide the borrower a copy of the completed promissory note and repayment information with the first disbursement of loan proceeds. The lender must return the original promissory note to the borrower when the loan is repaid in full.

REQUIREMENTS FOR DISBURSEMENT

If a student has received student financial aid while attending another school, you must request a financial aid transcript from any eligible school previously attended before you release Stafford or SLS loan proceeds to the student. As explained in "The School's Portion" in Section Six, you may certify a borrower's loan application (except for PLUS) prior to receipt of a financial aid transcript. Procedures for obtaining financial aid transcripts are described in Section Three of Chapter Three of the *Handbook*.

Financial aid transcript required from school(s) previously attended

A school may *not* release funds to the student if information provided by any school he or she previously attended indicates that the student is in default on a Stafford, PLUS, SLS, Consolidation Loan, Income Contingent Loan, NDSL, or Perkins Loan, or that the student owes a repayment on a Pell, SEOG, or SSIG grant. See Chapter Two for more information on grant overpayments.

The school must determine that the student has maintained eligibility for the loan before each disbursement of loan proceeds. Reaffirmation of loan eligibility includes an indication of Pell Grant eligibility (and Stafford, if applicable), establishing that the student has maintained satisfactory academic progress, and enrollment status. For example, if the student

Reaffirmation of loan eligibility before each disbursement

- ✓ *Pell and Stafford eligibility*
- ✓ *satisfactory academic progress*
- ✓ *enrollment status*

drops below half-time status after receiving the first disbursement of a loan, the student is no longer eligible, and cannot receive the second disbursement of the loan, even if he or she reenrolls at least half time during that enrollment period.

The money borrowed by the student under the Stafford Loan or SLS programs must be sent by the lender to the school in the form of a check (or other means) requiring endorsement or other written approval of the student. The check must be made payable to the student or, if required by the guarantee agency, co-payable to the student and the school.

If the school discovers that a student did not register for the period of enrollment covered by the loan, the school must return the loan proceeds to the lender within 30 days of this discovery. If a student registers but never attends classes for the period of enrollment covered by the loan, the student has failed to qualify for the loan, and the lender must immediately demand full repayment of the loan.

The school may provide the loan proceeds to a registered student no earlier than10 days before the first day of classes for that period of enrollment. The earliest that a school may credit a registered student's account is three weeks before the first day of classes for that enrollment period. The GSL regulations (Section 682.604) provide detailed instructions for processing loan proceeds.

A school may not hold Stafford or SLS loan proceeds before delivery to the student, or to the student's account, for more than 45 days after receiving them. If all required financial aid transcripts have not been received by then, you must immediately return the loan proceeds to the lender. If for any reason the loan check is returned uncashed to the lender, the portion of the origination fee deducted from that disbursement should be returned by the lender to the borrower.

Multiple disbursement required for all Stafford/ SLS loans

Multiple disbursement is now required for all Stafford and SLS loan proceeds, *regardless of the amount of the loan or the length of the loan period.* No installment amount may exceed more than one half of the loan proceeds. The second disbursement may not be made until at least one half of the loan period (the period of enrollment for which the loan is intended) has elapsed. However, a second or subsequent disbursement can be made before one half of the loan period has elapsed in order for the disbursement to be made at the beginning of the second semester, quarter, or similar division of the school's academic period, if the disbursement schedule (described below) provides for it. In that case, the disbursement can be made up to 30 days before the academic period begins. Only if the first disbursement would take place on or after the time scheduled for the second disbursement can the proceeds be delivered by the lender in a single disbursement. This multiple disbursement provision applies to all Stafford and SLS loans guaranteed on or after January 1, 1990, and made for periods of enrollment beginning on or after that date.

Disbursement schedule now required

Provisions of the Omnibus Budget Reconciliation Act of 1989 (P.L. 101-239) now require a school to provide the lender with a schedule for disbursement of loan proceeds, for each of its students, that meets Stafford and SLS loan disbursement requirements. The disbursement schedule must comply with the multiple disbursement requirements just described, and with the restrictions on delivery to first-year, first-time Stafford and SLS borrowers described below. Schools with standard academic terms must develop disbursement schedules based on their academic calendars, unless charges are assessed at established points in the program or academic year. Schools *without* standard academic terms, such as clock-hour or credit-hour programs, must base their disbursement schedules on the requirements for multiple disbursement described in this section. The disbursement schedule item on the school's portion of the loan application may be used to fulfill the requirement for a disbursement schedule. Or, the school may provide disbursement schedules directly to the lender (or to the guarantee agency, if the agency is serving as an agent for its lenders for this purpose).

Beginning with Stafford and SLS loans disbursed on or after March 1, 1990, lenders may not disburse loan proceeds without first receiving a disbursement schedule from the school. The student is not required to sign the disbursement schedule. Remember, these are disbursement dates, not anticipated delivery dates; you should allow time for mail delivery when establishing disbursement schedules for lenders.

✓ P.L. 101-508

Delay of disbursement to 1st year, 1st-time undergraduate Stafford/ SLS borrowers

A school may not deliver the first installment of Stafford or SLS loan proceeds to a first-year undergraduate student borrower who has not previously received a Stafford or SLS loan until 30 days after the first day of the student's program of study. This delayed disbursement requirement applies to SLS loans for periods of enrollment beginning on or after January 1, 1990. The effective date for Stafford Loans is for periods of enrollment beginning on or after January 1, 1991.

In developing a disbursement schedule, you must consider both the mandatory 30-day delayed delivery requirement and the 45-day limit on holding loan proceeds, and construct a schedule that will meet both of those requirements. Before delivering subsequent installments of loan proceeds, you must determine that the borrower continues to be enrolled and is maintaining satisfactory progress. In addition, a school may not make a first disbursement of loan proceeds to a first-year undergraduate SLS borrower who has left school (a late disbursement) prior to completing the 30-day period required before loan disbursement. (Note that, for schools with default rates greater than 30 percent, the delayed certification of loans to first-time Stafford or SLS borrowers has the effect of a delayed disbursement of those loans.) See Section Eight under "Default Reduction Initiatives" for more detail on these new requirements.

The delayed disbursement (delivery) requirement for first-time Stafford and SLS borrowers, combined with the provision that lenders may disburse loan proceeds up to 30 days before the beginning of the period of enrollment, could result in a situation where first-time SLS borrowers would be subject to accrued interest for up to 60 days before actually receiving the loan proceeds. To avoid such situations, schools should provide lenders with a disbursement schedule that ensures that the first disbursement will arrive at the school just before the 30th day of the borrower's enrollment period. In order to delay disbursement, delayed certification may also be necessary, so that the 45-day limit on holding loan proceeds is not violated.

Provisions for payment to students outside U.S.

The multiple disbursement requirements discussed in the preceding pages do not apply to students attending a school outside the United States. If a student is attending a school located outside the United States, the check may be sent directly to the student. For students in a study abroad program, use of a direct deposit form to deposit the loan check into the student's bank account is an acceptable "written approval."

Multiple disbursement requirements do not apply to the Consolidation Loan or PLUS loan programs. Lenders may disburse PLUS loans directly to PLUS borrowers.

As mentioned earlier, in circumstances where the school receives Stafford or SLS loan proceeds from a lender and then receives verification information (or any other information) indicating that the student has been awarded aid in excess of need, you must ensure that the student receives only the funds to which he or she is entitled.

If a student completes the academic program and has Stafford or SLS loan funds remaining in his or her account, the school should either promptly send the excess money to the student, or return the remaining funds to the lender and, if possible, notify the student that the funds have been returned. Any credit balance remaining in a student's account after the student has dropped below half-time status, withdrawn, or left school before completing the academic program, must be returned to the lender.

NOTE: Any additional loan proceeds in excess of those necessary to cover costs of attendance owed by the student may be held by the school (for use during the remainder of the academic year) *only* with the written authorization of the student. If the student, at a later date, requests the excess loans proceeds, you must release them.

LATE DISBURSEMENT

If the lender disburses the loan proceeds after the end of the period of enrollment for which the loan was made, the proceeds must be returned to the lender within 30 days, unless the proceeds are the first disbursement of the loan, and come with a notice from the lender stating that the late first disbursement has been approved by the guarantee agency. Similarly, if the lender disburses the loan proceeds before the end of the enrollment period, but after the student has left school or dropped below half-time status, the school must return the loan proceeds to the lender within 30 days. (Note the prohibition on late disbursement to first-year undergraduate SLS borrowers discussed earlier in this section.) When a lender learns that the borrower has left school, a late second or subsequent disbursement can be made on a Stafford or SLS loan only if the guarantee agency permits it *and* the borrower has graduated or successfully completed the period of enrollment for which the loan was intended.

When returning a late disbursement to the lender, the school must include with it a note explaining the circumstances of its return and, if applicable, information concerning the student's enrollment status or withdrawal. The note should also include the cost of attendance for the period in which the student was enrolled. The student should be informed that the lender, if allowed by the guarantee agency, may again disburse funds to cover costs incurred while the student was eligible.

Second or subsequent late disbursement of Stafford or SLS loans curtailed

As noted earlier, a late first disbursement now cannot be made to a first-year undergraduate SLS borrower who has withdrawn from school or dropped out prior to completing the 30-day enrollment period required before disbursement. Generally, *a second or subsequent* late disbursement of a Stafford or SLS loan to a borrower who has withdrawn from school is also prohibited. Instead, the disbursement must be used to reduce the student's outstanding loan balance. The lender must return to the student's account the insurance premium and origination fee attributable to the withheld disbursement. This prohibition applies to all second or subsequent disbursements made on or after December 19, 1989, for periods of enrollment beginning on or after January 1, 1990. However, if the borrower has left school after successfully completing the program, or after completing the period of enrollment for which the loan was intended, a late disbursement of loan proceeds *can* be made.

SECTION EIGHT: DEFAULT REDUCTION MEASURES

The major default reduction measures, with the exception of those concerning entrance counseling, are covered in this section; there is cross-referencing to other sections of this chapter where more detail on specific changes may be provided. The requirements for initial counseling of students will be covered in Section Nine under "Entrance Counseling." Some specific requirements of the Budget Reconciliation Act (see below), such as modification to deferment provisions and changes to student and institutional eligibility requirements, are covered only in the appropriate sections of the chapter.

Margin notes are used to attract your attention to new information where it appears in other sections.

The Department of Education issued comprehensive default reduction regulations on June 5, 1989, as part of a major effort to reduce the default rate of Stafford Loan and SLS borrowers. The new regulations are found in the General Provisions regulations (Part 668) and in the GSL regulations (Part 682). Note that P.L. 101-542, enacted in November 1990, suspended the requirement that schools collect, and report to prospective students, their completion and job placement rates. Thus schools need not submit Track Record Disclosure Forms to the Department, and are requested not to do so. However, schools that make marketing claims regarding job placement *are* required to provide completion and job placement rates to prospective students.

✓ Default Initiative Regulations

The Appropriations Act for the Department of Education (P.L. 101-166) and the Omnibus Budget Reconciliation Act of 1989 (P.L. 101-239), enacted in November and December 1989 respectively, also contain a number of measures aimed at reducing loan defaults. Modifications to that legislation were made in subsequent legislation enacted in November 1990 (P.L. 101-508, P.L. 101-517, and P.L. 101-647). SLS borrowers, and schools with high default rates, are a major focus of the default reduction legislation.

These actions by law and regulation require schools to provide additional loan counseling to students, and to take steps to reduce student loan defaults. More stringent default reduction efforts are required of schools with default rates above a given level.

The following Dear Colleague letters provide additional detail and may answer specific questions about the default reduction initiatives: 89-S-59 (August 1989), GEN 89-58 (December 1989), GEN 90-33 (September 1990), GEN 90-41 (December 1990), GEN 91-2 (January 1991) and 92-S-66 (February 1992). If you have further questions about the default reduction initiatives, you may contact—

Attention: Default Management Section, DAPR

U.S. Department of Education
Room 3912, ROB-3
400 Maryland Avenue, SW
Washington, DC 20202-5353

Phone: (202) 708-9396

Many of the default reduction measures are based on a school's cohort default rate for a given fiscal year. The fiscal year (FY) for the Federal Government is October 1 to September 30—thus FY 1991 is the period October 1, 1990 through September 30, 1991. Schools are notified of their cohort default rates each year; for example, schools were notified of their cohort default rate for FY 1989 in July 1991, and will receive their cohort default rate for FY 1990 in June 1992.

Cohort default rate—definition

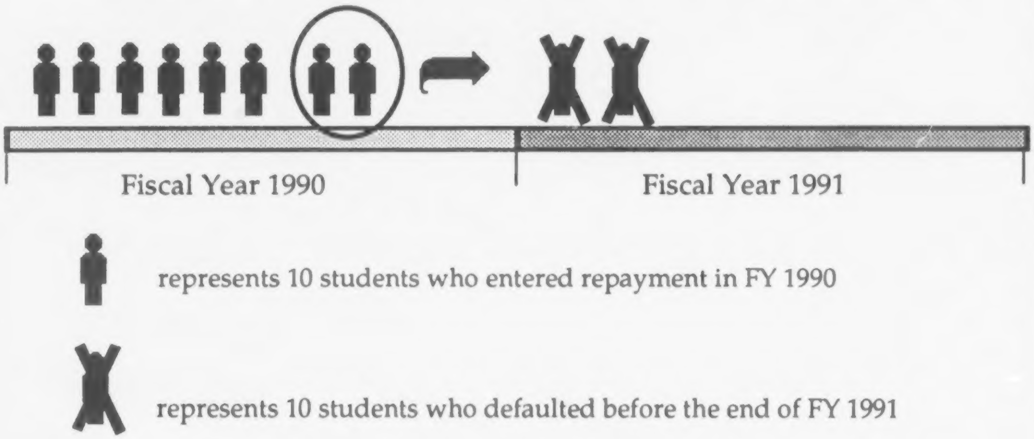
The cohort default rate (formerly known as the fiscal year default rate) is the percentage of current and former students entering repayment on a Stafford or SLS loan in a given fiscal year who default before the end of the following fiscal year. For schools with fewer than 30 students entering repayment in a given year, the default rate for the three most recent fiscal years is averaged to arrive at the official cohort default rate. Schools with fewer than 30 borrowers entering repayment that do *not* have three years of cohort default rates will have an unofficial default rate calculated; those schools will not be subject to default reduction requirements, other than those required of all schools, until an average default rate for three *consecutive* fiscal years can be calculated.

The cohort default rate is a combined rate for both the Stafford Loan and SLS programs. However, a borrower who enters repayment on more than one of these loans during the fiscal year in question is counted as one borrower in computing the school's default rate for that year.

Here is an illustration of how a school's cohort fefault rate is determined.

In FY 1990, 80 current and former SLS and/or Stafford Loan borrowers at Magenta Sands Community College entered repayment on their loans. By the end of FY 1991, 20 of those students, or one fourth, had defaulted. Magenta Sands Community College's cohort default rate *for FY 1990* is 25 percent.

Magenta Sands Community College



Cohort default rate—calculation

The formula for calculating a cohort default rate for schools with 30 or more borrowers entering repayment is:

$$\frac{\text{number of students who entered repayment in FY } \boldsymbol{A} \text{ who default by the end of FY } \boldsymbol{B} \text{ (the following FY)}}{\text{number of students who entered repayment in FY } \boldsymbol{A}} \times 100\%$$

A cohort default rate is like a "snapshot" of the time period affected. Changes that occur after the data for a particular cohort default rate are collected will not affect that default rate calculation. To illustrate, let's look at Magenta Sands Community College's cohort default rate for FY 1990. Those students who enter repayment in FY 1990 and default before the end of FY 1991 are counted in Magenta's FY 1990 cohort default rate. On the following page are examples of three students who attended Magenta and subsequently defaulted.

- Alfonia A. defaulted in July 1991, but made satisfactory arrangements to repay her loan and reentered repayment in December 1991. For purposes of calculating Magenta's FY 1990 cohort default rate, Alfonia continues to be counted as in default.
- Toby T., another former student at Magenta, entered repayment in October 1990 and subsequently defaulted in May 1991. However, Toby won $10,000 in a lottery in November 1991 and promptly repaid his loan in full. Nevertheless, Toby continues to be counted as in default in Magenta's FY 1990 cohort default rate calculation.
- Jay M., still another former student at Magenta, made satisfactory payments on a loan that entered repayment in FY 1990. However, in spring of 1991 Jay lost his job and, unable to find another job, defaulted on his loan in November 1991. Because Jay's default occurred after the end of the FY 1990 cohort default rate calculation period, which for those who defaulted ended on September 30, 1991, his loan was reported as in repayment. Jay's loan will never be counted as a default for *any* fiscal year's cohort default rate calculation.

Calculating *average* cohort default rates

FY 1989 is the first year for which average cohort default rates were calculated. These rates were based on an average of the school's default rates for FY 1987, FY 1988, and FY 1989. *If a school had fewer than 30 borrowers in FY 1989*, the average was calculated by adding the actual default rates for FY 1987, FY 1988, and FY 1989 and dividing by three. It did not matter whether the rates for either FY 1987 or FY 1988 were based on 30 or more borrowers entering repayment. The result of this calculation is an average rate and is the official FY 1989 cohort default rate.

For FY 1990 and subsequent years, the calculation of an average rate is based on the *actual rates originally calculated*. The calculation will ignore previously calculated average rates and will use only the actual rates. *The trigger for calculation of the average cohort default rate is the number of borrowers in the fiscal year for which the cohort default rates are being calculated.*

On the following page is an example of how the average cohort default rate works.

Carolla Institute had 40 borrowers in FY 1987 and a default rate of 50 percent; 35 borrowers in FY 1988 and a default rate of 40 percent, and 21 borrowers in FY 1989 and a default rate of 33 percent. *Carolla's average cohort default rate for FY 1989 is 41 percent.* (See page 82 for more information on the effect on schools with default rates of 35 percent or more.)

In FY 1990, Carolla had 28 borrowers and its default rate increased to 41 percent. *Based on the **actual** cohort default rates for FY 1988, FY 1989, and FY 1990, Carolla's average cohort default rate for FY 1990 is 38 percent.*

If a school believes that its cohort default rate was calculated using incorrect data, the school may contest the rate by following the procedures in Enclosure B, sent to each school as part of its FY 1990 default notification letter.

* * *

Determining default rates for schools whose status has changed
668.15(h)

Default reduction measures apply to *all* divisions and locations of a school. When a school changes its status—by branching, consolidation, or change of ownership, for example—the school's cohort default rate will be reviewed based on its new status. The following examples illustrate how the calculation of a school's default rate is affected by a change in the school's status.

If a school changes from one location (branch) of a school to a free-standing school, its default rate for FY 1990 will be determined based on its status on October 1, 1989. If the school was still a location of another school on October 1, its official cohort default rate will be that of the "parent" school. If the school was already free-standing on October 1, then its actual default rate will be its official default rate. Note that if a school has changed ownership and is *not* considered to be a continuation of the same school as defined in the Institutional Eligibility regulations, Section 600.31, the new school must be in existence for two years before it can be eligible to participate in SFA programs. The new school, of course, will not be subject to the former school's default rate.

However, when **a free-standing school becomes a separate location of another school**, a new cohort default rate will be calculated. The Department of Education will calculate a new official rate for the school by adding borrower default data for the former free-standing school and the new "parent" school, and borrower repayment data for the former free-standing school and the new "parent" school, and arriving at a new merged rate for both the former free-standing and "parent" school on that basis. The new merged rate is the school's official cohort default rate and will apply to the parent school *and all of its locations.*

Remember that a free-standing school that has been issued an individual OPE/ID number *must* use that identification number when certifying GSL application forms. The OPE/ID number provides the guarantee agencies with the means to report individual loan activity on a school-by-school basis. See Dear Colleague letter 92-S-66 (February 1992) for more information about this requirement.

Here is an example of how a merged rate is calculated when a free-standing school becomes a separate location of another school.

Trimbel Technical School, a free-standing school, has become a branch of Fibonnaci Technical Institute. Here is how Fibonnaci's new cohort default rate will be calculated:

Trimbel		*Fibonnaci*
25	students in default	75
100	students entering repayment	200

To calculate a new official default rate for Fibonnaci, the data on students defaulting is merged

$$25 + 75 = 100$$

and the data on students entering repayment is merged

$$100 + 200 = 300$$

A default rate is calculated based on the merged data, using the formula for calculating a cohort default rate

$$\frac{100}{300} \times 100\% = 33.3\%$$

Thus, Fibonacci's new official default rate is 33.3%.

Similarly, if a school changes **from a location (branch) of one school to a location of another school,** borrower repayment and default data will be merged as described above for free-standing to branch campus changes, but the data used will be from both schools in their entirety, not just the branches involved. The school's former "parent" repayment and default data and its new "parent" repayment and default data will be added together and used to calculate a revised official default rate for the new "parent" school *and all of its branches*.

If **two or more free-standing schools merge**, the cohort default rate is calculated by combining the number of students who enter repayment and the number of students who default for each of the schools, and calculating a merged default rate for the "new" school on that basis.

Certain requirements related to cohort default rates apply when **a school changes ownership.** If the new owner applies for eligibility to participate in the SFA programs as a continuation of the old school, the new owner remains responsible for the school's cohort default rates and for implementing any requirements associated with those rates. New owners should be aware that cohort default rates calculated for fiscal years prior to the change of ownership may affect the school's ability to participate in the SFA programs. In fact, a school undergoing a change of ownership may be refused certification for participation in any SFA program on the basis of current cohort default rates.

If you have any questions regarding your school's status or its official cohort default rate, you should contact the Default Management Section at the address listed on page 70.

The default reduction measures dependent upon a school's cohort default rate will be addressed after a discussion of those measures applicable to all schools, regardless of their default rates.

CONSUMER DISCLOSURE REQUIREMENTS

All schools must provide current and prospective students with information on costs of attendance, programs offered, and the school's refund policy. If a school makes marketing claims regarding job placement in order to recruit students, it must provide the most recent available data concerning employment statistics, graduation statistics, and other information necessary to substantiate the truthfulness of its claims.

As the result of P.L. 101-542, the Department has suspended Section 668.44 (c)-(f) of the General Provisions regulations, which required specific consumer disclosure information. Schools are no longer *required* to collect and report to students information on completion rates, students' pass rates on required State licensing exams, and job placement rates. Schools may continue, if they choose, to provide this information to students. Thus, Track Record Disclosure Forms (TRDFs), previously used to provide this information to prospective students, are no longer required and schools should *not* send TRDFs to the Department of Education.

P.L. 101-542

Consumer disclosure requirement—effective July 1, 1993

Please be aware that, *beginning July 1, 1993*, schools must provide current and prospective students with the completion and graduation rates of full-time undergraduate students enrolled in certificate or degree programs at the school. This disclosure is a requirement of the Student Right-to-Know and Campus Security Act (P.L. 101-542) and must be made annually. See Dear Colleague letter GEN 91-14 (March 1991) and Dear Colleague letter GEN 91-27 (August 1991) for more detail on this upcoming requirement. Section Eight of Chapter Three of the *Handbook* also provides more information on this legislative requirement.

DEFAULT REDUCTION INITIATIVES

Requirements applicable to all schools

The following new requirements apply to all schools regardless of their default rate, and are the result of congressional legislation.

GED must be available to students without a high school diploma

- Beginning January 1, 1990, a school that admits students who do not have a high school diploma must make available to those students a General Education Development (GED) program. The school does not have to develop its own GED program or pay students' tuition for such a program, but it must be sure that a GED program is available nearby, and must inform students of the program's availability. This requirement applies to all SFA programs except SSIG and Byrd Scholarship programs. See Section One of Chapter Three of the *Handbook* for more detail on GED requirements.

High school diploma or GED required for SLS borrowers

- A student is ineligible for an SLS loan until he or she receives a high school diploma or GED. See Section One under "Borrower Eligibility" for more information on this restriction.

Multiple disbursement requirements

- For Stafford and SLS loans made for periods of enrollment beginning on or after January 1, 1990, loan proceeds must be disbursed in two or more installments, regardless of the amount of the loan or the length of the enrollment period for which the loan is made. No disbursement may exceed one half of the loan amount, and the second disbursement may not be made until at least one half of the loan period has elapsed. However, a second disbursement may be made before one half of the loan period has elapsed in order to coincide with the beginning of a second semester, quarter, etc. See Section Seven under "Requirements for Disbursement" for more detail on this requirement.

Restrictions on late disbursements to some SLS borrowers

- A school may not make a first disbursement of loan proceeds to a first-year undergraduate SLS borrower who has withdrawn from school (a late disbursement) prior to completing the 30-day enrollment period required before disbursement . However, if the borrower has successfully completed the program, or has completed the first year of the program, a late disbursement may be made. See Section Seven under "Requirements for Disbursement" for more information on late disbursement of loan proceeds.

- Late disbursements of Stafford and SLS loans are subject to certain restrictions. See Section Seven under "Late Disbursement" for more information on this requirement.

✓ P.L. 101-508

SLS delayed disbursement restriction extended to Stafford Loan borrowers

- Stafford or SLS borrowers who are entering the first year of an undergraduate program, and have not previously received a Stafford or SLS loan, may not receive the first installment of loan proceeds until 30 days after the first day of the program of study. The extension of this restriction (which applied to SLS borrowers for periods of enrollment beginning January 1, 1990) to Stafford Loan borrowers is effective for periods of enrollment beginning on or after January 1, 1991. The first-year undergraduate provision applies to the student's current program of study; a student could have completed the first year of another program of study, but would still be considered a first-year undergraduate in his or her current program.

- Annual SLS loan limits have been reduced for first-year undergraduate students enrolled in a program of study of less than a full academic year. A first-year student who has not yet completed the first year of an undergraduate program at that school (including transfer students and students who may have completed programs at other schools), and who is enrolled in a program of less than a full academic year, is subject to the following new SLS annual loan limits—

SLS reduced annual loan limits

    - ☐ $2,500 for a student in a program of at least 2/3 of an academic year, but less than a full year

    - ☐ $1,500 for a student in a program of less than 2/3 but at least 1/3 of an academic year.

The following example shows how this restriction would work:

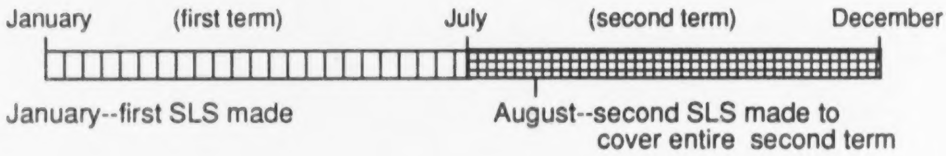
> Mark, after completing a two-year course in electronics at Carolla Institute, enrolled in a six-month computer program at Magenta Sands Community College. Magenta's academic year is nine months. Mark is eligible for an SLS loan of $2,500 for the computer program, since the program is for 2/3 of an academic year (6 months of a 9-month academic year).
>
> Upon completion of this course, Mark will not have completed the first academic year of study at Magenta; if he decides to take another course that is less than one academic year in length the following year, he still will be considered a first-year student, and again will be subject to the reduced loan limits.

A first-year undergraduate student in a program of less than 1/3 of an academic year may not receive an SLS for study in that program. The reduced annual SLS limits apply to loans certified on or after January 1, 1990, and will remain in effect until October 1, 1996. The maximum limit of $4,000 is still in effect for students who are not first-year undergraduates, regardless of the length of the program.

✓ P.L. 101-508

New SLS loan limit restriction

◆ Seven months or the school's academic year, whichever is longer, is now the minimum period to which SLS maximum annual loan limits, including the reduced loan limits described above, can apply. This means that only one SLS loan for the maximum annual limit can be certified during any seven-month period, regardless of the length of the program. For example, if a school's program of study consists of two six-month academic years (January-June 1991 and July-December 1991), the student's *second* SLS loan certification must be delayed until the eighth month of the program, or August 1991. However, the second SLS loan could include the period of enrollment not covered by the previous SLS, as long as the student maintained eligibility during that period. The second SLS could be applied retroactively in some circumstances; thus, the second SLS could cover the period from July-December 1991. Here is an example of how the SLS loan limit just described might be applied.



The reduction from a nine-month to a seven-month minimum period became effective for loans certified on or after November 5, 1990. This requirement applies to *all* SLS borrowers, and is in effect until October 1, 1996.

Please note that the limit of the longer of the school's academic year or seven months is a *minimum* requirement for SLS annual loan limits. Guarantee agencies may place more stringent requirements on the length of a loan period to which SLS maximum annual loan limits apply. For example, a guarantee agency's policy may require nine months to elapse before certifying another loan, even though a school's academic year is only eight months. Or, the agency could require a student's progression to the next grade level, regardless of how much time elapsed, before certifying another loan.

- Schools are now required to provide to the appropriate lender, on behalf of each student borrower, a disbursement schedule that meets Stafford and SLS loan disbursement requirements. See "Requirements for Disbursement" in Section Seven for more detail.

Disbursement schedule for lender now required

* * *

Specific default reduction measures are required of schools with cohort default rates greater than 20%, and more stringent actions are required of schools with higher default rates. Ultimately, limitation, suspension, or termination (LST) is possible if schools with rates over 55 percent are unable to reduce those rates or to demonstrate that they have done all they can to reduce defaults.

NOTE: The default reduction measures described in the categories below are *cumulative*—for example, a school with a default rate greater than 30 percent must comply with specific requirements *in addition to* those required of schools with default rates greater than 20 percent. The Summary of Default Reduction Requirements chart included in this section illustrates the cumulative effect of these requirements.

Default reduction measures are *cumulative* as rates increase

Requirements of schools with default rates greater than 20 percent

More than 20%—default management plans required

If a school's Stafford and SLS cohort default rate exceeds 20 percent, the school must implement a default management plan designed to reduce the causes of default at that school. The school must provide a proposed default management plan to the Department of Education and the guarantee agency that guarantees the largest volume of loans to its borrowers. The school may submit its own plan, or it may notify the Department that it has adopted Appendix D of Part 668 of the General Provisions regulations. A copy of Appendix D is provided at the end of this chapter.

If a school wishes to deviate from any of the requirements of Appendix D, it must justify those deviations in its plan submission. Default management plans will be in effect for three years, and the effective date for a school's plan is the date of the plan approval letter. If a school's default rate drops to 20 percent or below, the school will no longer be required to follow the provisions of its plan; however, the Department recommends continued implementation of the plan. (See "Effect of changes in default rate categories" later in this section.)

The Department will notify schools in this default rate category that do not already have an approved plan, and will provide instructions for submitting a default management plan. Schools are asked to wait for this notification before submitting a plan. If your school wishes to submit a revised default management plan, it should be marked "Revision" and sent to the Default Management Section address given on page 70.

20.1%-30%—*Pro rata* and delayed certification not required in most cases

It appears that most schools with default rates between 20.1 percent and 30 percent do not have excessive dropout rates. Consequently, these schools are encouraged, but not required, to adopt a *pro rata* refund policy and delay certification of loan applications to first-time Stafford Loan and SLS borrowers. However, the Department of Education still retains the right to impose these requirements on schools in the 20.1 to 30 percent default rate category, if conditions in a school warrant the use of *pro rata* refunds and delayed certification of loan applications in order to reduce the school's default rate.

Requirements of schools with default rates of 30.0 percent or more

30% or more—restricted SLS eligibility

The following restrictions apply until the Department notifies a school that its default rate has fallen below 30.0 percent.

- Generally, an undergraduate student at a school with a *30.0 percent or greater* default rate may not borrow under the SLS program. The restriction applies to all loans certified on or after January 1, 1990, and is in effect until October 1, 1996. See

"Effect of changes in default rate categories" in this section for more information on the applicability of this restriction. If a school under this restriction incorrectly certifies an SLS loan, the loan is an ineligible one, and the school is liable. The borrower is responsible for repaying the loan, but the Department of Education will waive application of Section 682.412 of the GSL regulations, so that the borrower will not be harmed by the school's error.

More than 30%—delayed certification for first-time Stafford and SLS borrowers

◆ If a school's Stafford Loan or SLS default rate is 30.1 percent or greater, the school must delay certification of loans to first-time Stafford and SLS borrowers for loans certified on or after October 1, 1989. The purpose of delaying certification is to ensure that loan proceeds are not delivered to the borrower until at least 30 days after the beginning of the period of enrollment for which the loan was made. The borrower need not have attended class each day in the 30-day period. This requirement must be in effect not later than 60 days after a school receives notification that its default rate exceeds 30 percent.

You may have noted that under the requirements applicable to *all* schools, first-year, first-time undergraduate Stafford and SLS borrowers are subject to delayed delivery of loan proceeds until 30 days after the first day of the program of study. Thus, the only effect of the above restriction is to extend the delayed certification requirement to first-time Stafford or SLS borrowers who are not first-year students, if a school's default rate is greater than 30 percent. This redundancy occurs because the restrictions on schools with default rates over 30 percent are requirements of the Department of Education's default reduction regulations. The restriction on all first-year, first-time undergraduate Stafford and SLS borrowers is the result of the Budget Reconciliation Acts of 1989 and 1990 (P.L. 101-239 and P.L. 101-508).

Note that, in regard to SLS borrowers, the two previous bullets appear to contradict one another. However, restricted SLS eligibility does not apply to graduate students nor to students who, on the date the default rate notification was received, were enrolled in a program of study and had already *received* an SLS for that program. Those students may receive additional SLS loans to complete that program, regardless of the school's default rate. Thus, some students at schools with a default rate that exceeds 30 percent will be eligible for SLS loans. (See Dear Colleague letter GEN 90-33 [September 1990] for more detail on restrictions on SLS eligibility.)

More than 30%—*pro rata* refunds

◆ A school participating in the guaranteed student loan programs that has a default rate of 30.1 percent or greater must implement a *pro rata* refund policy according to the provisions of Section 682.606(b)(2) and (c) of the GSL regulations. Note that, beginning July 1, 1991, if a student does not receive a GSL, the mandatory *pro rata* refund previously authorized by P.L. 101-66 is no longer required.

***Pro rata* refund calculations explained in Chapter 3**

The *pro rata* refund provisions apply to all GSL program recipients at schools with default rates greater than 30 percent. (For students in other SFA programs at those schools, the effective dates for *pro rata* refunds are July 1, 1990 through June 30, 1991.) If the school's previous year default rate exceeded 30 percent, the *pro rata* refund requirement continues. A *pro rata* refund is a refund that is based on that portion of a student's tuition, fees, room and board, and other charges assessed by the school attributable to the period of enrollment remaining after the student withdraws from school, after subtraction of certain fees. *Pro rata* refund calculations are explained in Section Four of Chapter Three of the *Handbook*.

A student is entitled to a *pro rata* refund if the student's last day of attendance is *before the earlier of—*

- ☐ the half-way point in time for the student's program of study or
- ☐ six months after the beginning of the student's program.

If a student is enrolled in a baccalaureate degree program of four years, the half-way point of his or her program would be two years; thus the student would be entitled to a *pro rata* refund only if he or she dropped out before six month's attendance.

✓ P.L. 101-508

Effect of default rates of 35 percent or more for FY 1988, FY 1989, and FY 1990

Loss of GSL eligibility if 35% or greater default rate for most recent 3 years

A school that is notified that its cohort default rate was 35.0 percent or greater for FY 1988, 1989, and 1990 loses eligibility to participate in the GSL programs immediately upon notification by the Department of Education. Schools subject to loss of GSL eligibility due to excessive default rates have an opportunity to appeal this action; the appeal process is described in the following section. Loss of eligibility to participate will be in effect for the remainder of FY 1992, and for the following two fiscal years. Thus, the earliest that a school could reapply for eligibility to participate in the GSL programs is October 1, 1994, the first day of FY 1995. ***Beginning in FY 1993, a cohort default rate equal to or exceeding 30.0 percent for each of the three most recent fiscal years will be used as the trigger for loss of eligibility.*** A school losing eligibility must immediately inform all current and potential students of its ineligibility for GSL programs, and make clear to students that they cannot receive GSL loans for attendance at that school.

NOTE: *Until July 1, 1994, historically black colleges, tribally controlled community colleges, and Navajo community colleges are not subject to loss of GSL eligibility due to excessive default rates.*

Schools having default rates of 35.0 percent or greater, with an average cohort default based on fewer than 30 borrowers, are also subject to loss of GSL eligibility, if they have three years of official cohort default rates.

An official cohort default rate means:

- For FY 1989 and FY 1990, the school's default rate was either an average rate (calculated using the three most recent years of default rates); or the school's default rate was based on 30 or more borrowers (allowing calculation of an actual default rate).
- For FY 1988, the school's default rate was based on 30 or more borrowers. If a school's FY 1988 default rate was based on fewer than 30 borrowers, the school has an *unofficial* default rate, because three years of default rates were not available to calculate the required average.

For a more detailed explanation of calculating cohort default rates, see the discussion at the beginning of this section.

If a school loses GSL eligibility, any GSL loan proceeds disbursed to the school but not delivered to the student (or credited to the student's account) must be returned to the lender immediately. If a school loses its eligibility during a payment period, but continues to provide instruction to students enrolled in its formerly eligible program, a student who, at the time of the school's loss of eligibility, has received a first disbursement of a Stafford or SLS loan may receive the second (or subsequent) disbursement of that loan, as long as he or she is otherwise eligible. This assumes that the school remains open during the period of enrollment for which the loan was made.

If a school loses GSL eligibility, the beginning of an enrolled student's grace period, and his or her eligibility for in-school deferment will not be affected. However, new students who enroll after the date of loss of eligibility, or students who drop below the required enrollment level to maintain deferment eligibility, are *not* eligible for subsequent in-school deferments. For more information on institutional eligibility requirements, see Section Nine of Chapter Three of the *Handbook.*

If your school is in this default rate category, read your default rate notification letter carefully—it will provide additional information about what steps a school in this category should take. Your default rate notification letter must be retained for program review and audit purposes.

Appealing loss of eligibility

7-day intent to appeal deadline

A school losing GSL eligibility as the result of a cohort default rate of 35 percent or more for three consecutive years has the right to appeal to the Secretary of Education to withdraw its loss of eligibility. *The school* ***must*** *notify the Department in writing of its intent to appeal its loss of eligibility within seven calendar days from the date the school receives its default notification letter, in order to remain eligible to participate in the GSL programs during the appeal process.* The following appeal procedures apply only to those schools subject to loss of GSL eligibility because their FY 1988, FY 1989, and FY 1990 cohort default rates equalled or exceeded 35.0 percent.

A school may appeal its loss of eligibility based on two separate circumstances, briefly summarized here. For details of those circumstances, see Enclosure B and the General Provisions regulations, section 668.15(g).

10-day deadline for identifying inaccurate data

5-day appeal deadline after g.a. responds

- A school may appeal by challenging the accuracy of the default rates used to determine its loss of eligibility, if the school believes that the calculation of its cohort default rate for any of the fiscal years relevant to its loss of eligibility is not accurate, and a recalculation of the data would produce a rate less than 35 percent for any of the three relevant fiscal years. The school's written request identifying the inaccurate data must be submitted to the appropriate guarantee agency (or agencies) within ten working days of the date the school receives its default rate notification letter. After the guarantee agency responds to the school, the school must submit its final appeal to the Department within five working days of receipt of the guarantee agency's response.

30 days to appeal under mitigating circumstances

◆ A school may appeal under one (or both) of the "exceptional mitigating circumstances" that the Department recognizes would make its loss of eligibility inequitable. This appeal must be submitted to the Department within 30 calendar days of the date the school receives its default rate notification letter. The "exceptional mitigating circumstances" are:

- ☐ The school is successfully serving students from disadvantaged economic backgrounds. This means that the school must meet the following requirements—
  - at least two thirds of its student enrolled at least half time are from disadvantaged economic backgrounds;
  - at least two thirds of its initially enrolled full-time students that were scheduled to complete within the 24-month period, complete their program; and
  - at least two thirds of those students who receive a degree, certificate, or other recognized credential from the school are placed in relevant jobs or continue at a higher level of education.
- ☐ The school has only a small proportion of its students receiving Stafford or SLS loans. This is defined as a school in which no more than 15 percent of its students who are enrolled at least half time receive Stafford or SLS loans and—
  - at least two thirds of its initially enrolled full-time students that were scheduled to complete within the 24-month period, complete their program; and
  - at least two thirds of those students who receive a degree, certificate, or other recognized credential from the school are placed in relevant jobs or continue at a higher level of education.

NOTE: See Enclosure B, which accompanied your school's default rate notification letter, for more information on loss of eligibility and the appeals process. Appeals of loss of eligibility due to a school's default rate should be sent to the Default Management Section address at the beginning of this section.

Requirements of schools with default rates between 40.1 percent and 55.0 percent

Above 40.1%—all Appendix D provisions must be adopted

Schools with default rates in this category are expected to adopt all the measures in Appendix D, including implementation of the *pro rata* refund policy and delay of loan certification (and thus delivery) for first-time Stafford and SLS borrowers. The restrictions on undergraduate eligibility for SLS loans also apply. A guarantee agency must review each school in its designated State or States that has a default rate greater than 40 percent and has a loan volume of $100,000 or more.

If a school's FY 1990 default rate exceeds 40.0 percent and is not at least five percentage points lower than its FY 1989 default rate, the school will be subject to limitation, suspension, or termination (LST) action, affecting the school's participation in *all* SFA programs.

Requirements of schools with default rates above 55 percent

Schools in this category are expected to adopt all the measures in Appendix D, including *pro rata* refunds and delayed certification (and delivery). If a school's cohort default rate for FY 1989 is greater than 60 percent or its FY 1990 rate is greater than 55 percent, the Department of Education may initiate LST action affecting the school's participation in all SFA programs, regardless of the previous fiscal year cohort default rate. If action is begun, the school must show that it has implemented diligently all default reduction measures in Appendix D in order to avoid termination of eligibility to participate in all SFA programs. The default rate subject to maximum sanctions will be reduced to 40 percent over the next five years, according to the following schedule:

FY 1989	60%
FY 1990	55%
FY 1991	50%
FY 1992	45%
FY 1993, etc.	40%

The following chart summarizes the default reduction requirements and illustrates the cumulative effect of these requirements.

SUMMARY OF DEFAULT REDUCTION REQUIREMENTS

Consequences of Default Rates	0% 20.0%	20.1% - 29.9%	30.0%	30.1% - 40.0%*	40.1% - 100%*+	55.1%- 100%*+
Multiple disbursement for all Stafford/SLS loans; delay of 1st disbursement of 1st-year undergrad Stafford/SLS; reduced SLS annual loan limits for 1st-year students in short-term programs	✓	✓	✓	✓	✓	✓
Implement Default Management Plan		✓	✓	✓	✓	✓
Restrict certification of SLS loan applications			✓	✓	✓	✓
Delay loan certification for students applying for 1st Stafford/SLS to ensure funds not delivered before 30 days				✓	✓	✓
Implement pro-rata refund policy for GSL indefinitely; other SFA programs, 7/1/90 - 6/30/91				✓	✓	✓
Implement 34 CFR 668, Appendix D, in its entirety					✓	✓
Subject to limitation, suspension, or termination actions of all SFA programs					✓	✓

* A school will lose its eligibility to participate in the GSL programs if, for each of the three most recent fiscal years (beginning with FY 1987, FY 1988, and FY 1989), the cohort default rate is equal to or greater than 35%.

+ Greater than 40% subject to LST sanctions if default rate is not at least 5 percentage points lower than previous year's rate.

Effect of *changes* in default rate categories

As noted previously, schools received notification of their FY 1989 default rates in July 1991, and should receive notification of their FY 1990 default rates in June 1992. If your school's default rate changed enough to move it into a different default rate category, please follow the guidelines described below.

- **If your school's FY 1989 default rate was more than 20 percent, but the FY 1990 rate is 20 percent or less**, you are encouraged, but no longer required, to follow the provisions of your school's default management plan. Thus you are encouraged, but not required to implement a *pro rata* refund policy, and to delay certification of Stafford and SLS loan applications for first-time borrowers to ensure that loan proceeds are not delivered until 30 days of the borrower's enrollment period have elapsed.

- **If your school's FY 1989 default rate was 20 percent or less, but the FY 1990 rate is between 20.1 percent and 30 percent,** your school must implement a default management plan. The Department will notify schools of the date they should submit their plans for approval. The notification letter provides additional guidance in the preparation and submission of the default management plan.

30% or less—*pro rata* and delayed certification not mandatory

- **If your school's FY 1989 default rate exceeded 30 percent, but the FY 1990 rate is 30 percent or less**, you are encouraged, but no longer required, to implement a *pro rata* refund policy and delay certification of loan applications for first-time Stafford and SLS borrowers. In addition, if your school's default rate is less than 30 percent, undergraduate students enrolled in your school are again eligible for SLS loans. Note, however, that if your FY 1990 default is *at 30 percent or greater*, the restriction denying SLS loans to almost all undergraduate students, described under the next bullet, still applies.

Less than 30%—undergraduate students again eligible for SLS

If your school's FY 1990 cohort default rate is less than 30 percent, you may certify SLS applications immediately for students enrolled on or after the date you receive the FY 1990 notification letter. For students already enrolled when the letter was received, the SLS loan application may cover the student's entire period of enrollment, as long as the period of enrollment is within the current academic year.

- **If your school's FY 1989 default rate was less than 30 percent, but the FY 1990 rate exceeds 30 percent**, your school must immediately implement a *pro rata* refund policy for all students with guaranteed student loans made for a period of enrollment beginning on or after receipt of the FY 1990 default rate notification. The *pro rata* refund policy applies to all GSL program recipients at your school as long as your school's default rate exceeds 30 percent. This policy applied to all SFA programs only through June 30, 1991. *Beginning July 1, 1991, if a student does not receive a GSL, mandatory pro rata refund is no longer required.* Your school is also subject to the restriction requiring delayed certification of loan applications for any student who is entering the first year of an undergraduate program and has not previously received a Stafford Loan or SLS, to ensure that loan proceeds are not delivered until 30 days after the enrollment period has begun.

Mandatory *pro rata* refund only applies to GSL programs beginning 7/1/91

If your school's FY 1990 default rate is now *30 percent or greater,* and was previously less than 30 percent, undergraduate students at your school may not borrow under the SLS program. *Previously, you could deliver SLS loan proceeds to a student if the SLS application was* ***certified*** *before receipt of the FY 1989 default rate notification letter.* Now, according to General Provisions regulations section 668.25 as amended, *effective September 2, 1991, students who, on the date your school received its default rate notification,* ***had already received*** *the first disbursement of SLS loan proceeds for that program may receive additional SLS loans to complete that program, regardless of your school's default rate.* However, if the program length is subsequently extended, the student may *not* receive an SLS for the extension period. See Dear Colleague letter 90-S-61 (March 1990) for more information on this SLS loan restriction.

30% or more: restricted SLS eligibility—note new restriction

- **If your school's FY 1989 default rate was above 40 percent and the FY 1990 rate is now less than 40 percent,** your school must implement a default management plan, which can be a continuation of its Appendix D plan. The Department will notify your school of the date the plan should be submitted for approval.

- **If your school's FY 1989 default rate was less than 40 percent and your FY 1990 rate is now above 40 percent,** your school is encouraged to adopt Appendix D as its default management plan immediately, as a defense against possible LST action. If your school's current plan incorporates all elements of Appendix D, you are already in compliance with this requirement.

Here is an example of how a change in default rate categories might affect a school.

Magenta Community College's FY 1988 default rate was 25 percent, and Magenta submitted its default management plan to the Department of Education in October 1990. Magenta's plan was approved in February 1991. The Department released the FY 1989 default rates in July 1991, and Magenta's default rate unfortunately had increased to 33 percent. Magenta will continue to follow its approved default management plan (in effect for three years), but must also conform to the restrictions on schools with default rates of 30 percent or greater.

Effective September 2, 1991, Magenta's undergraduate students now may ***not*** *borrow under the SLS program unless they had* ***received*** *the first disbursement of their SLS loan proceeds before Magenta received its FY 1989 default rate notification.* However, students enrolled in a program of study who had already received the first disbursement of an SLS loan for that program may continue to receive SLS loans until their program of study is completed.

Magenta must also delay certification of loans to first-time Stafford and SLS borrowers to ensure that loan proceeds are not delivered to those student borrowers until 30 days after the beginning of the relevant enrollment period for which the loans are intended. In addition, if Magenta has not already done so, the school must implement a *pro rata* refund policy according to the procedures described in Section Four of Chapter Three of the *Handbook*. (After June 30, 1991, this *pro rata* refund policy is not required if a student does not receive a GSL.)

If you have questions or need clarification concerning your school's cohort default rate and its consequences, contact the Default Management Section at the address and telephone number listed on page 70 of this section.

SECTION NINE: COUNSELING STUDENTS

The financial aid administrator's role as loan counselor has increased in importance with the shift in emphasis from grants to loans, and the increased concern about student loan defaults. This section provides information on new counseling requirements, and suggestions as to how loan information might be presented. Schools must keep documentation in each student's file showing that both entrance and exit counseling have been provided to the borrower.

Both entrance and exit counseling are requirements under the default reduction regulations. However, effective loan counseling is an ongoing process, and reinforcement of points made during the entrance interview is advisable whenever aid administrators meet with students concerning their loans. For example, the aid administrator has an opportunity during each delivery of loan proceeds to counsel students concerning satisfactory academic progress, constraints on aid, the obligation to notify his or her lender about a change in address, etc. If loan counseling is an ongoing process, the exit interview becomes a review of information conveyed during the course of the student's program of study, and the presentation of additional material to prepare the student for loan repayment.

Dynamic presentation of material at both entrance and exit interviews using charts, handouts, audio-visual materials, and question-and-answer sessions can convey your message with greatest effect. You may wish to contact guarantee agencies, lenders, and other organizations associated with postsecondary education to see what videos, pamphlets, and other materials may be available to you. The Department of Education publishes a default prevention brochure and sends sample copies to all schools. That publication may be ordered by writing to:

Default Prevention Brochure
Box 84
Washingon, DC 20044-0084

The illustration on the next page is a summary of information to be covered during the entrance and exit interviews or counseling sessions. The "core items" should be covered as part of both entrance and exit counseling. Entrance and exit counseling are covered in Section 682.604 of the GSL regulations, and in Appendix D of the General Provisions regulations, Part 668, incorporated as Appendix C of this chapter. The counseling recommended as part of Appendix D requirements is marked with an asterisk on the illustration.

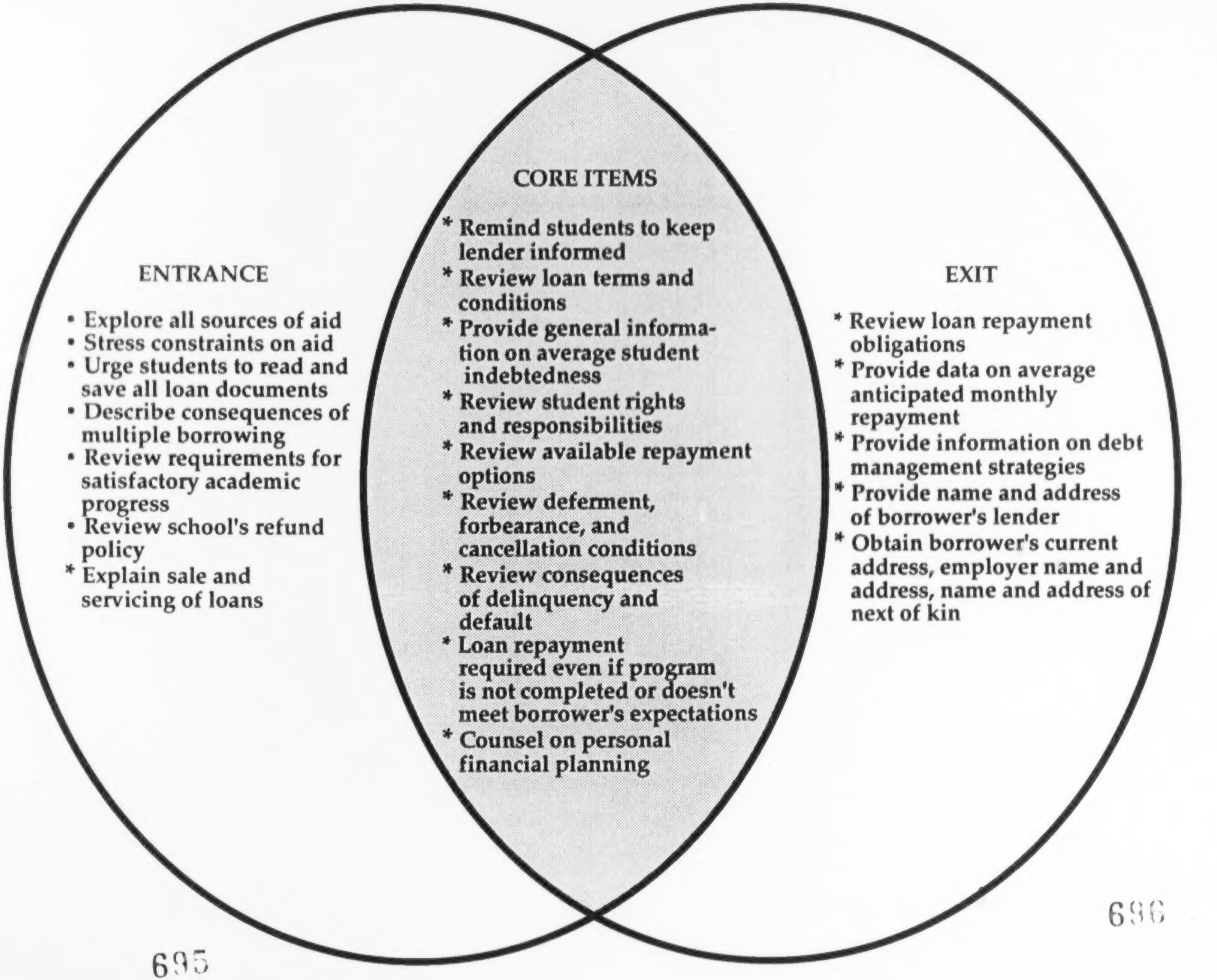
ENTRANCE COUNSELING

Entrance counseling must be conducted before release of the first disbursement of the first Stafford or SLS loan made to the borrower at your school. A school's external degree program, junior year abroad program, or other off-campus program must provide the entrance counseling information by mail before release of the loan proceeds. A correspondence school must also provide the information by mail before releasing loan proceeds. Schools using Appendix D default reduction measures must administer a written test covering the terms and conditions of Stafford and SLS loans as part of the entrance counseling process. Additional counseling must be given to students who fail the written test.

Recognizing that each school and each student's situation is different, here are some suggestions for presentation of the information covered in the illustration. The emphasis may be shifted, but all the points made below should be covered during entrance counseling.

- **An overview of all possible sources of aid is important**, with an emphasis on the constraints on student aid, and a discussion of "reasonable expenses" in the context of grants and loans. Your Program Participation Agreement requires you to provide, in addition to State grant assistance information, a source of information for programs in the student's home State. Information on other loan sources, such as health professions loans, also should be provided.

- **Terms and conditions of various loan programs should be reviewed.** In addition to providing basic information on loan limits, loan fees, and interest rates, counselors should explain terms such as deferment, forbearance, and cancellation. This is one place where available repayment options, such as loan consolidation and refinancing, might be covered (see Section Four for a brief discussion of loan consolidation and refinancing).



ENTRANCE

- Explore all sources of aid
- Stress constraints on aid
- Urge students to read and save all loan documents
- Describe consequences of multiple borrowing
- Review requirements for satisfactory academic progress
- Review school's refund policy

* Explain sale and servicing of loans

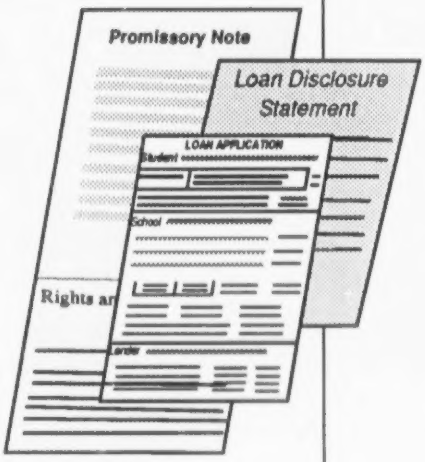
CORE ITEMS

* Remind students to keep lender informed
* Review loan terms and conditions
* Provide general information on average student indebtedness
* Review student rights and responsibilities
* Review available repayment options
* Review deferment, forbearance, and cancellation conditions
* Review consequences of delinquency and default
* Loan repayment required even if program is not completed or doesn't meet borrower's expectations
* Counsel on personal financial planning

EXIT

* Review loan repayment obligations
* Provide data on average anticipated monthly repayment
* Provide information on debt management strategies
* Provide name and address of borrower's lender
* Obtain borrower's current address, employer name and address, name and address of next of kin

◆ **The obligations of loan repayment should be emphasized.** You should advise the student to read carefully the loan application, the Disclosure Statement, and the Promissory Note with the borrower's rights and responsibilities before signing any of those documents. Often a student loan is the borrower's first experience in obtaining a loan of any kind, and basic loan terminology should be clearly explained, to ensure that borrowers are aware of their obligations. Terms such as "loan servicer" should be defined, and the process of selling loans to other lenders or to "secondary markets" should be explained. Lenders and guarantee agencies provide explanations of these and other terms in the material they make available to students and schools. (A *loan servicer* is a corporation that administers and collects loan payments for the holder of the loan. A *secondary market* is a lender or a private or public agency that specializes in buying student loans.)



The obligations with regard to repayment should be thoroughly covered, and you should explain that the *exact* repayment schedule will not be provided until loan repayment begins. While the Disclosure Statement and the promissory note contain the total dollar amount of the loan, including interest and fees, they do not necessarily specify the amount of each payment or the frequency with which payments will be made. You should remind the student that certain fees will be subtracted from the loan amount *before* the loan is disbursed, but repayment of the *full* loan amount is required. You should emphasize that loan repayment is required even if the program is not completed or doesn't meet the borrower's expectations. This is one point at which the school's refund policy could be explained in detail, so that students know that if they leave school, for whatever reason, a portion of their loan disbursement *may* be returned to the lender.

It is the student's obligation to keep the lender informed about changes in his or her status, enrollment, or financial condition. The student or parent borrower is required to inform the lender if the student—

- ❐ fails to enroll in school for the period for which the loan was intended,
- ❐ changes schools,
- ❐ changes his or her name or address (including changes in the permanent address while in school),
- ❐ graduates or withdraws from school,
- ❐ wishes to apply for a deferment,
- ❐ wishes to request forbearance, or
- ❐ is having difficulty repaying the loan.

Here is another point at which the school's refund policy could be explained.

It is the student's obligation to maintain satisfactory academic progress according to the standards described in Chapter Two, Section One of this *Handbook*. A brief discussion of standards of satisfactory academic progress is found in Dear Colleague letter GEN-86-35 (November 1986).

◆ **Personal financial planning should be emphasized**. Students should ask themselves questions like "Can I handle Work-Study and still keep my grades up?" "Can I afford loan payments when I graduate, if I major in _____?" Financial planning forces the student to consider whether he or she is ready to handle the burden of a loan or loans. If not presented previously, charts should be shown illustrating the monthly repayment for various loan amounts. The consequences of multiple borrowing should be explained to the student, along with general information on average loan indebtedness. The student also should consider total loan indebtedness as the result of borrowing under more than one loan program over a long period of time—for example, as an undergraduate and a graduate student. This is another point at which information on loan consolidation and refinancing—as considerations for long-range financial planning—might be covered.

food
Rent
Total Debt Burden
Monthly Loan Payment Size
Transportation
Clothes

◆ **Students should keep a copy of all documents concerning education loans, and any other student aid received.** This would be a good time, if you have the resources, to provide students with a folder or other aids to encourage them to keep all financial aid materials in one place. The student should keep, at a minimum, the following records:

- ☐ a copy of the loan application;
- ☐ a copy of the promissory note and the loan Disclosure Statement;
- ☐ a record of any loan checks received;
- ☐ the loan repayment schedule, sent to the borrower when repayment begins;
- ☐ a copy of any requests for deferment or forbearance, and of any other correspondence with the lender;
- ☐ a record of payments made by the borrower, including cancelled checks and money order receipts; and
- ☐ the most recent name and address of the lender and loan servicer.

◆ **Borrower rights and responsibilities should be explained.** This could be a part of the discussion on obligations of loan repayment, or treated separately. While many borrower rights and responsibilities will be covered in the course of the presentation, it's important to review them as a unit at some point.

The borrower has a right to—

- ☐ written information on loan obligations, including loan consolidation and refinancing, and information on borrower rights and responsibilities;
- ☐ a copy of the promissory note, and return of the note when the loan is paid in full;
- ☐ before repayment, information on interest rates, fees, the balance owed on loans, and a loan repayment schedule;
- ☐ notification, if the loan is sold or transferred to a loan servicer (here is another point at which the role of the loan servicer could be explained);
- ☐ Federal interest benefits, if qualified;
- ☐ a grace period, if applicable, and an explanation of what that means;
- ☐ prepayment of the loan without penalty;
- ☐ deferment, if the borrower qualifies; and
- ☐ request forbearance (but the lender may not grant it).

As noted in Section Eight under Consumer Disclosure Requirements, beginning July 1, 1993, you must provide current and prospective students with the completion and graduation rates of full-time undergraduate students enrolled in certificate or degree programs at your school.

The borrower is required to—

- ☐ repay the loan according to the repayment schedule, and notify the lender of anything that affects ability to repay, or eligibility for deferment or cancellation;
- ☐ notify the lender if he or she graduates, withdraws from school, drops below half-time status, transfers to another school, or changes name, address, or Social Security number;
- ☐ notify the lender if he or she fails to enroll for the period covered by the loan;
- ☐ notify the school of a change of address; and
- ☐ attend an exit interview before leaving school.

◆ **Emphasize to students the consequences of delinquency and default**—stress that once they are in default, there is little that can be negotiated with regard to repayment. For example, a defaulter is no longer eligible for any deferment provisions, even if he or she would otherwise qualify. Defaulters often find that repayment schedules for loans that have been accelerated are more stringent than the original repayment schedule.

Please note that, under the default reduction regulations, a person or persons knowledgeable of SFA programs must be available to answer students' questions, either in person or on the telephone, immediately or shortly after the entrance counseling session is over.

EXIT COUNSELING

Exit counseling must be conducted shortly before the borrower ceases at least half-time study. As noted above, students are reminded that one of their obligations as borrowers is to attend an exit counseling session. If the borrower drops out without notifying the school, you must mail exit counseling material to the borrower at his or her last known address within 30 days after you learn that the borrower has left school or failed to attend an exit counseling session. For correspondence programs, you must send the borrower written counseling materials within 30 days after the borrower completes the program. As with entrance counseling, if your school is complying with the Appendix D default reduction measures, testing of information presented must be part of the exit counseling process.

New legislation (the Emergency Unemployment Compensation Act of 1991 [P.L. 102-164]) requires schools to obtain, during exit counseling, the following information: the borrower's expected future permanent address, the name and address of the borrower's expected employer (if available), and the address of the borrower's next of kin. A Notice of Proposed Rulemaking is being developed to address this and other requirements of P.L. 101-164.

As the chart on page 93 indicates, much of the material presented at the entrance counseling session will again be presented during exit counseling. The emphasis shifts, however, to loan repayment obligations and debt management strategies. At the exit counseling session, the following points should be stressed:

- **Financial planning for loan repayment is essential to debt management.** Stress the importance of developing a realistic budget based on the student's minimum salary requirements. Emphasize that the loan payment is a "fixed cost," like rent or utilities. Data on average anticipated monthly payments are useful, especially if students have not yet received loan repayment schedules.

- **Loan repayment obligations should be reviewed**, with emphasis on keeping the lender informed if the borrower is having difficulty in making loan payments. Stress the importance of communicating with the lender in writing, and of keeping copies of all communication to and from the lender.

- **Loan refinancing and loan consolidation should be explained** again, and students should be referred to their lenders for more detailed information about these options. Section Four provides basic information on refinancing and loan consolidation.

- **Review deferment, forbearance, and cancellation provisions** of Stafford, SLS, and PLUS programs. Remind students that these provisions require action on their part—borrowers must apply to the lender for deferment, forbearance, or loan cancellation, using appropriate forms provided by the lender. Emphasize that while waiting for approval of the request for any of these conditions, students should continue to make payments on the loan, to avoid the possibility of delinquency and default.

- **Emphasize the consequences of delinquency and default, and the importance of keeping the lender informed** of changes in status, in address, or difficulty in making loan payments.

Note: It would be helpful at this point to inform the borrower that the *lender* (or holder of the borrower's loan) is now required to keep the *borrower* informed of address changes. The borrower must be notified no later than 45 days after a lender assigns his or her Stafford, SLS, or PLUS loan to another lender, if the result is a change in the party (new holder or servicer of the loan) to whom payments must be sent. The borrower must be provided the following information:

☐ the identity of the purchasing lender, and the name and address of the new lender or servicer;

☐ notice of the loan assignment; and

☐ the telephone number of both the purchasing and selling lenders and servicers.

Notification of this change may be made separately or jointly by purchasing and selling lenders, but if the notice is made separately, each lender must indicate that a corresponding notice will be sent by the other. These requirements became effective on December 12, 1991 for the Stafford Loan, SLS, and PLUS programs; a similar requirement has been in effect for the FISL and Federal PLUS programs since 1976.

- **Obtain, from each borrower, a permanent address, address of the borrower's next-of-kin, and the name and address of the borrower's expected employer**, if possible. You are urged to inform the lender of any change in the borrower's permanent address. Upon request, your school must provide a lender or guarantee agency with the name, latest known address, employer, and employer address of a borrower who has attended your school.

SECTION TEN: ADDITIONAL REQUIREMENTS AND RESPONSIBILITIES OF SCHOOLS

This section covers additional requirements and responsibilities schools must meet which have not been covered in previous sections. The requirements for an equitable refund policy, for sending information to lenders, for meeting recordkeeping and audit requirements, and for verification of loan applications are covered below. A statement of the prohibition of the use of commissioned salespersons is also provided here. The school's requirements for providing consumer information to students and prospective students are provided in Section Eight of this chapter.

REFUND POLICY

Requirements for refund standards

Each school must establish a fair and equitable refund policy for making a refund of unused tuition, fees, and room and board charges to a student who receives a loan and does not enroll for the academic period for which the loan was intended; or who does not complete the academic period for which a loan was made. (The policy, of course, extends to a parent PLUS borrower for such a student.) A school's refund policy is fair and equitable if it conforms to applicable State law and specific refund standards set by the school's nationally recognized accrediting agency, and is approved by the U.S. Department of Education. If no such standards exist, the specific refund standards of another association of institutions of postsecondary education approved by the Department may be used, or the school may use the standards found in Appendix A of the GSL regulations, published on November 10, 1986. These standards are reprinted in Chapter Three of this *Handbook*, in the section on refunds and repayments.

For refund calculation procedures, see Section Four of Chapter Three. When the school makes a refund to the lender, it must notify the student in writing and, if the borrower is the student's parent, it must also notify the parent.

Refund policy must be in writing

The school must state its refund policy clearly (in writing) and clearly state the procedure a student must follow to obtain a refund. The school must provide (in writing) a statement containing its refund policy to a prospective student prior to the student's acceptance for enrollment. The school must also make its refund policy known to currently enrolled students. If its refund policy changes, the school must inform all students of the change. Refunds of the proceeds of a Stafford, SLS, or PLUS loan must be made to the lender within 30 days of the school's determination that a student has failed to enroll. If the student has withdrawn from school, the refund must be made within 60 days of the school's determination of withdrawal. A refund must also be made within 30 days of a student's failure to return after an approved leave of absence. (A more detailed definition of a student's withdrawal date is provided in Section Four of Chapter Three of the *Handbook*.) *All refunds must be sent directly to the lender—they must not be given to the student or parent.*

Determining withdrawal date for refunds

The withdrawal date for refund purposes is the earlier of the date the student notifies the school of his or her withdrawal, or the last day of class attendance. If the student fails to return from an approved leave of absence, the withdrawal date is the first day of the leave of absence. For correspondence study, the withdrawal date is 60 days after the due date of an assignment the student has failed to submit. For appeal procedures with regard to the withdrawal date for correspondence study, see the GSL regulations, Section 682.605(b)(3).

The new *pro rata* refund requirements for schools with default rates over 30 percent are discussed in Section Eight under "Requirements of schools with default rates of 30.0 percent or more."

EXCHANGE OF INFORMATION REQUIREMENTS

Schools are required to promptly inform the lender or the guarantee agency of any change in the borrower's permanent address, or any other change in student status that would affect the student's loan eligibility. Schools also must provide to a lender or guarantee agency, on request, a borrower's name, address, and if possible, employer and employer address.

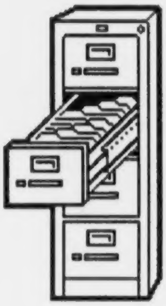
To promote loan repayment, schools now may make an agreement to provide the holders of delinquent loans made to current or former students with information about the delinquent borrower's location or employment, and may try to contact the borrower and counsel him or her to avoid default.

If a lender has requested preclaims assistance from a guarantee agency, the lender must provide the school at which the borrower obtained a loan with a copy of the preclaims assistance request within 30 days of making the request. The guarantee agency may send a copy of the preclaims assistance request to the school on the lender's behalf.

At the request of a school, a guarantee agency must provide, without charge, information about students enrolled at the school who are in default on a loan under the GSL programs.

RECORDKEEPING, AUDITS, AND REPORTS

A school must maintain the following student loan records:



- the name of the borrower and a copy of the loan application;
- if the PLUS borrower is a parent, the name of the student on whose behalf the loan was made;
- the name of the lender (and address);
- the amount of the loan and the period for which the loan was intended;
- the data used to construct an individual student budget or the school's itemized standard budget used in calculating the student's estimated cost of attendance;
- the amount of the student's tuition and fees for that period, the date the student paid the tuition and fees, and the date the loan check was received and delivered to the student; and
- for Stafford Loans, the data used to determine the student's Adjusted Gross Family Income and EFC.

Additional records requirements for Stafford Loans and SLS

For Stafford Loans and SLS, loan records must also contain the following information:

- the date the school received each loan disbursement and the amount of the disbursement;
- the date the loan check was endorsed by the school;

- the date(s) of transmittal of loan proceeds to the student;
- a record of the student's job placement, if known; and
- documentation of Pell Grant eligibility or ineligibility for Stafford Loan borrowers, and documentation of Stafford eligibility for SLS borrowers.

Each school must establish a fiscal and administrative recordkeeping system, which may be maintained in computer or microfilm form. If a school is a lender and the holder of a promissory note, it must also retain the original note, to be returned to the borrower upon completion of repayment. A school must have an audit by an independent certified public accountant performed at least once every two years, covering the period of time since the previous audit. A school must agree to allow the U.S. Department of Education or a guarantee agency to audit school records periodically to determine compliance with Office of Student Financial Assistance regulations. Finally, each school must agree to comply with various reporting requirements as defined by the U.S. Department of Education.

The Student Confirmation Reports are a reflection of a school's GSL borrower data. If these reports are not reconciled and reflect inaccurate data, the school's GSL cohort default rate will probably contain inaccuracies. The school is responsible for the timely completion of a Student Confirmation Report received from the Department or from a guarantee agency.

Loan records must be kept for five years

For Stafford, PLUS and SLS loans, you must keep all required records of each student who graduates, withdraws, or fails to enroll at least half time for five years following the last date of the period for which the loan was intended. You also must keep copies of reports and other forms related to Stafford, PLUS, and SLS loans for five years after their completion. In the event of the closure, termination, suspension, or change of ownership of a participating school, that school or its successor must not only make provision for the retention of these records but must allow for access to the records by designated Federal officials for purposes of audit and examination.

Schools with default rates above 20 percent are required to undergo a biennial on-site guarantee agency review of their GSL programs unless the administration of the school is operating under an approved default management plan, or the school's default rate is based on loans entering repayment totalling less than $100,000 in a given year.

The Stafford Loan, SLS, and PLUS Programs are included in a combined audit guide for Student Financial Assistance Programs, which was issued in March 1990. Following are some of the requirements subject to audit:

Requirements subject to audit—see *Audit Guide: Audits of Student Financial Assistance Programs,* GEN-90-13 (March 1990)

- The institution must determine student eligibility. If the PLUS borrower is a parent, you must also determine whether the parent is eligible to borrow on behalf of an eligible dependent student. Determination of Pell eligibility for Stafford and SLS borrowers is also required.
- The institution is responsible for completing portions of the loan application regarding student eligibility, the student's estimated cost of attendance, the student's estimated financial assistance, and, if applicable, the expected family contribution.
- The institution must follow prescribed procedures in the GSL program regulations, Sections 682.604 and 682.606, for handling loan proceeds—which vary depending on whether the student does or does not enroll, and whether the proceeds are payable to the student only, or jointly to the student and the institution.
- When an institution becomes aware that: (1) a student with a deferment no longer meets the conditions for an in-school deferment, (2) a student who received a loan or for whom a PLUS loan was received failed to enroll at least half time for the period for which the loan was intended or was otherwise ineligible for the loan, or (3) a student's permanent address has changed, the information must immediately be reported to the lender or the guarantee agency.
- The institution must submit Student Confirmation Reports to the appropriate guarantee agency periodically.
- The institution must report a change in a student's enrollment status directly to the lender or guarantee agency if a student has graduated, withdrawn, or ceased to be enrolled at least half time and (1) the change is one which would normally be reported on a Student Confirmation Report and (2) the school does not expect to submit its next Student Confirmation Report to the Secretary (or guarantee agency) within the next 60 days.
- The institution must establish adequate entrance and exit counseling procedures.

- The institution's refund policy must conform to applicable standards.

- If applicable, the institution must establish procedures to identify students eligible for a *pro rata* refund, and provide the refunds as required.

Program Participation Agreement requirements

In order to comply with changes in the Program Participation Agreement made as a result of the Higher Education Amendments of 1986, each school is required to—

- provide students with recent data on employment and graduation statistics when advertising job placement rates to recruit students;

- inform enrolled eligible borrowers of the availability of State grant assistance from the State in which the school is located, and a source of information for programs in the home State of the eligible borrower; and

- certify the availability of a drug abuse prevention program for officers, employees, and students of the school.

The Agreement also prohibits schools from charging students fees for processing applications or data required to determine eligibility for SFA programs, or for processing GSL program deferment forms, and prohibits the certification of loans in excess of the student's eligibility. Your school should have received a copy of Dear Colleague letter GEN-87-2 (January 1987), which provides information about the Program Participation Agreement and instructions for its execution.

VERIFICATION REQUIREMENTS

Of the guaranteed student loan programs, only Stafford Loans are covered by the verification requirements of the general provisions regulations. SLS and PLUS loans, and Stafford Loans made for study at foreign schools, are not covered by verification requirements. For detailed information about verification of applications for Federal student aid, see *The Verification Guide, 1992-93.*

The items to be verified on a student's financial aid application used in computing the EFC for Stafford Loans are:

Verification Items

- Adjusted Gross Income (or income earned from work) for the base year
- U.S. income tax paid for the base year
- number of family members in the household
- number of family members attending postsecondary educational institutions as at least half-time students
- certain untaxed income and benefits for the base year (if applicable):
    - ☐ Social Security benefits
    - ☐ child support
    - ☐ untaxed payments to IRA and/or Keogh plans
    - ☐ foreign income exclusion
    - ☐ earned income credit
    - ☐ interest on tax-free bonds
    - ☐ other untaxed income included on the U.S. income tax return (excluding schedules).

PROHIBITED ACTIVITY BY SCHOOLS AND LENDERS

An eligible school may not employ or use commissioned salespersons to promote the availability of loans. A "commissioned salesperson" is any person who receives compensation that is related to, or calculated on the basis of, student applications, enrollments, or acceptances. "Promote the availability" means providing prospective or enrolled students with applications, names of lenders, or other information designed to encourage students to apply for a Stafford, PLUS, or SLS loan. This term does not prohibit a commissioned slaesperson from providing general financial aid information to prospective or enrolled students.

Similarly, lenders are prohibited by law from offering inducements (such as points, premiums, or payments) to schools or individuals as a means to market loans. Lenders are also forbidden to mail unsolicited loan application forms to students, unless the student has previously obtained a student loan from that lender. Dear Colleague letter 89-S-55 (February 1989) provides specific examples of activity prohibited by law, and also provides examples of permissible activities.

A school may not make payments to induce lenders to make loans to students (or to the parents of students) at that school. Examples of prohibited inducements are provided in Section 682.212(b) of the GSL regulations.

APPENDIX A

GUARANTEE AGENCIES

ALABAMA
Alabama Commission on
Higher Education
1 Court Square, Suite 221
Montgomery, Alabama
36104-3584

(205) 269-2700

ALASKA
Alaska Commission on
Postsecondary Education
Alaska Student Loan Corporation
PO Box 110505
Juneau, Alaska 99811-0505

(907) 465-2854

ARIZONA
Arizona Educational
Loan Program
United Student Aid Funds, Inc.
1400 East Southern Avenue
Suite 200
Tempe, Arizona 85282

(602) 831-9988

ARKANSAS
Student Loan
Guarantee Foundation
of Arkansas
219 South Victory
Little Rock, Arkansas
72201-1884

(501) 372-1491

CALIFORNIA
California Student Aid Commission
P.O. Box 510845
Sacramento, California 94245-0845

(916) 445-0880

COLORADO
Colorado Guaranteed
Student Loan Program
999 18th Street, Suite 425
Denver, Colorado 80202-2440

(303) 294-5070 (status check)
(303) 294-5050 (main number)

CONNECTICUT
Connecticut Student
Loan Foundation
525 Brook Street
PO Box 1009
Rocky Hill, Connecticut 06067

(203) 257-4001

DELAWARE
Delaware Higher
Education Loan Program
Carvel State Office Building
820 North French Street
4th Floor
Wilmington, Delaware 19801

(302) 577-6055

712

DISTRICT OF COLUMBIA
Massachusetts Higher Education
Assistance Corporation
330 Stuart Street
Boston, Massachusetts 02116

(617) 426-9796

FLORIDA
Florida Student Financial Assistance
Foundation
Office of Student
Financial Assistance
325 West Gains Street
1344 Florida Education Center
Tallahassee, Florida 32399-0400

(904) 488-4095

GEORGIA
Georgia Student
Finance Commission
2082 East Exchange Place
Suite 200
Tucker, Georgia 30084

(404) 493-5402

HAWAII
Hawaii Educational Loan Program
P.O. Box 22187
Honolulu, Hawaii
96823-2187

(808) 536-3731

IDAHO
Student Loan Fund of Idaho, Inc.
P.O. Box 730
Fruitland, Idaho 83619

(208) 452-4058

ILLINOIS
Illinois Student Assistance
Commission
106 Wilmot Road
Deerfield, Illinois 60015

(708) 948-8550

INDIANA
State Student Assistance
Commission of Indiana
Loan Division
150 West Market, 5th Floor
Indianapolis, Indiana 46204-1032

(317) 232-2366

IOWA
Iowa College Student Aid
Commission
201 Jewett Building
914 Grand Avenue
Des Moines, Iowa 50309

(515) 281-4890
(800) 383-4222

KANSAS
United Student Aid Funds, Inc.
USA Group
11100 USA Parkway
Fishers, Indiana 46038

1-(800) 824-7044

KENTUCKY
Kentucky Higher Education
Assistance Authority
1050 U.S. 127 South
Frankfort, Kentucky 40601

(502) 564-7990

LOUISIANA
Louisiana Office of Student Financial Assistance
P.O. Box 91202
Baton Rouge, Louisiana
70821-9202

(504) 922-1011

MAINE
Maine Educational Assistance Division
State House Station 119
Augusta, Maine 04333

(207) 289-2183

MARYLAND
Maryland Higher Education
Loan Corporation
2100 Guilford Avenue
Room 305
Baltimore, Maryland 21218

(301) 333-6555

MASSACHUSETTS
Massachusetts
Higher Education
Assistance Corporation
330 Stuart Street
Boston, Massachusetts
02116

(617) 426-9434

MICHIGAN
Michigan Guarantee Agency
P.O. Box 30047
Lansing, Michigan 48909

(517) 373-0760

MINNESOTA
Northstar Guarantee Incorporated
444 Cedar Street
Suite 1910
St. Paul, Minnesota 55101

(612) 290-8795

MISSISSIPPI
Mississippi Guaranteed
Student Loan Agency
3825 Ridgewood Road
P.O. Box 342
Jackson, Mississippi
39211

(601) 982-6663

MISSOURI
Coordinating Board for
Higher Education
101 Adams
Jefferson City, Missouri
65101

(314) 751-3940

MONTANA
Montana Guaranteed
Student Loan Program
33 South Last Chance Gulch
Helena, Montana 59620-3104

(406) 444-6594

NEBRASKA
Nebraska Student Loan Program
P.O. Box 82507
Lincoln, Nebraska 68501

(402) 475-7272

NEVADA

See United Student Aid Funds, Inc.

NEW HAMPSHIRE
New Hampshire
Higher Education
Assistance Foundation
P.O. Box 877
Concord, New Hampshire 03302

(800) 235-2577 (within New Hampshire)
(800) 525-2577 (outside New Hampshire)
(603) 225-6612

NEW JERSEY
New Jersey Higher Education
Assistance Authority
Guaranteed Student Loan Program
4 Quakerbridge Plaza
Trenton, New Jersey 08625

(609) 588-3200

NEW MEXICO
New Mexico Student Loan
Guarantee Corporation
P.O. Box 27020
Albuquerque, New Mexico
87125-7020

(800) 279-3070
(505) 345-8821

NEW YORK
New York State Higher Education
Services Corporation
99 Washington Avenue
Albany, New York 12255

(518) 474-5592
(800) 642-6234, 9-4 Monday-Friday

NORTH CAROLINA
North Carolina State
Education Assistance
Authority
P.O. Box 2688
Chapel Hill, North Carolina
27515-2688

(919) 549-8614

NORTH DAKOTA
North Dakota Guaranteed
Student Loan Program
P.O. Box 5509
Bismarck, North Dakota
58502-5509

(701) 224-5600

OHIO
Ohio Student Loan Commission
309 South 4th Street
Columbus, Ohio
43215

(614) 644-6549
(614) 466-3091

OKLAHOMA
Oklahoma State Regents
for Higher Education
P.O. Box 54054
Oklahoma City, Oklahoma
73154-2054

(405) 840-8300

OREGON
Oregon State
Scholarship Commission
1445 Willamette Street
Eugene, Oregon 97401

(800) 452-8807 (within Oregon)
(503) 346-3200

PENNSYLVANIA
Pennsylvania Higher Education
Assistance Agency
660 Boas Street
Harrisburg, Pennsylvania
17102

(717) 257-2500
(800) 692-7392

RHODE ISLAND
Rhode Island Higher Education
Assistance Authority
560 Jefferson Boulevard
Warwick, Rhode Island
02886-1320

(401) 277-2050
(800) 922-9855 (outside Rhode Island)

SOUTH CAROLINA
South Carolina Student Loan
Corporation
Interstate Center, Suite 210
P.O. Box 21487
Columbia, South Carolina
29221

(803) 798-0916

SOUTH DAKOTA
Education
Assistance Corporation
115 First Avenue, S.W.
Aberdeen, South Dakota 57401

(605) 225-6423

TENNESSEE
Tennessee Student
Assistance Corporation
404 James Robertson Parkway
Suite 1950, Parkway Tower
Nashville, Tennessee 37243-0820

(615) 741-1346
(800) 342-1663 (within Tennessee)

TEXAS
Texas Guaranteed Student
Loan Corporation
P.O. Box 15996
Austin, Texas 78761

(512) 835-1900
(800) 252-9743

UTAH
Utah Higher Education Assistance
Authority
P.O. Box 45202
Salt Lake City, Utah 84145-0202

(801) 538-5240

VERMONT
Vermont Student
Assistance Corporation
Champlain Mill
P.O. Box 2000
Winooski, Vermont 05404-2000

(800) 642-3177 (within Vermont)
(802) 655-9602

VIRGINIA
Virginia State Education
Assistance Authority
411 East Franklin Street
Suite 300
Richmond, Virginia 23219

(804) 786-2035

WASHINGTON
Northwest Education Loan
Association
500 Coleman Building
811 First Avenue
Seattle, Washington 98104

(206) 625-1283

WEST VIRGINIA
Pennsylvania Higher Education
Assistance Agency
660 Boas Street
Harrisburg, Pennsylvania 17102

(215) 735-2877

WISCONSIN
Great Lakes Higher
Education Corporation
2401 International Lane
Madison, Wisconsin 53704

(608) 246-1800

WYOMING
United Student Aid Funds, Inc.
USA Group
11100 USA Parkway
Fishers, Indiana 46038

(800) 824-7044

AMERICAN SAMOA
Pacific Islands
Educational Loan Program
United Student Aid Funds, Inc.
1314 South King Street
Suite 961
Honolulu, Hawaii 96814

(808) 536-3731

NORTHERN MARIANA ISLANDS

See American Samoa

FEDERATED STATES OF MICRONESIA, MARSHALL ISLANDS, REPUBLIC OF PALAU

See American Samoa

VIRGIN ISLANDS
Virgin Islands Joint
Boards of Education
P.O. Box 11900
Charlotte Amalie
St. Thomas, Virgin Islands 00801

(809) 774-4546

GUAM

See American Samoa

PUERTO RICO
Higher Education
Assistance Corporation
P.O. Box 42001
Minillas Station
San Juan, Puerto Rico 00940-2001

(809) 763-3535

United Student Aid Funds, Inc.
USA Group
11100 USA Parkway
Fishers, Indiana 46038

(317) 849-6510
(800) 382-4506 (within Indiana)

APPENDIX B

FEDERALLY OPERATED SCHOOLS

Community College of the Air Force—Montgomery, Alabama
American Samoa Community College—American Samoa
V.A. Hospital School of Medical Technology—Martinez, California
Naval Postgraduate School—Monterey, California
Panama Canal College—Canal Zone
United States Air Force Academy—Colorado Springs, Colorado
United States Coast Guard Academy—New London, Connecticut
U.S.A.F. School of Applied Aerospace Science—Chanute Air Force Base, Illinois
V.A. Hospital, YMCA Community College, School of Radiologic Technology—Hines, Illinois
V.A. Hospital School of Anesthesia for Nurses—Des Moines, Iowa
United States Army Command and General Staff College—Ft. Leavenworth, Kansas
United States Naval Academy—Annapolis, Maryland
Uniformed Services University of the Health Sciences—Bethesda, Maryland
United States Merchant Marine Academy—Kings Point, New York
V.A. Hospital School of Radiologic Technology—Northport, New York
United States Military Academy—West Point, New York
Air Force Institute of Technology—Dayton, Ohio
American College of Puerto Rico—Puerto Rico
Antillian College—Puerto Rico
Bayamon Central University—Puerto Rico
V.A. Center, School of Medical Technology—Wood, Wisconsin
V.A. Center, School of Radiologic Technology—Wood, Wisconsin

Note: This list is not necessarily a complete list of Federally operated postsecondary schools. There may be others. If other Federally operated schools are identified, please notify the policy section by calling (202) 708-8242 or by writing to:

GSL Policy
400 Maryland Avenue, S.W.
(Room 4310, ROB-3)
Washington, D.C. 20202

Appendix C

Default Reduction Measures

Appendix D of June 5, 1989 Regulations

This appendix describes measures that an institution with a high default rate under the Stafford and SLS programs should find helpful in reducing defaults. An institution with a fiscal year default rate that exceeds the threshold rate for a limitation, suspension, or termination action under Sec. 668.15 may avoid those sanctions by demonstrating that it has made a diligent effort to implement the measures included in this Appendix. Other institutions should strongly consider taking these steps as well.

To reduce defaults, the Secretary recommends that the institution take the following measures:

I. Measures to Reduce Defaults by Dropouts

1. Revise admission policies and screening practices, consistent with applicable State law, to ensure that students enrolled in the institution, especially those admitted under "ability to benefit" criteria or those in need of substantial remedial work, have a reasonable expectation of succeeding in their programs of study.
2. Improve the availability and effectiveness of academic counseling and other support services to decrease withdrawal rates, particularly with respect to academically high-risk students.
3. In consultation with the cognizant accrediting body, attempt to reduce its withdrawal rate by improving its curricula, facilities, materials, equipment, qualifications and size of faculty, and other aspects of its educational program.
4. Increase the frequency of reviews of in-school status of borrowers to ensure the institution's prompt recognition of instances in which borrowers withdraw without notice to the institution.
5. Implement a compensation structure for commissioned enrollment representatives and salesmen under which a representative or salesman earns no more than a nominal commission for enrolling students that never attend school, and progressively greater commissions for students who remain in school for substantial periods.

6. Implement a pro rata refund policy, as defined in 34 CFR 682.606(b)(2) and (c).

7. Delay certification of a first-time borrower's loan application, as described in 34 CFR 682.603(c).

8. Except in the case of a program of study by correspondence, require each first-time student borrower to endorse the loan check at the institution, and pick up at the institution any loan proceeds remaining after deduction of institutional charges.

II. Measures to Reduce Defaults Related to Borrowers' Difficulty Finding Employment

1. Expand its job placement program for its students by, for example, increasing contacts with local employers, counseling students in job search skills, and exploring with local employers the feasibility of establishing internship and cooperative education programs.

2. In consultation with the cognizant accrediting body, attempt to improve its job placement rate and licensing examination pass rate by improving its curricula, facilities, materials, equipment, qualifications and size of faculty, and other aspects of its educational program.

3. Establish a liaison for job information and placement assistance with the local office of the United States Employment Service and the Private Industry Council supported by the U.S. Department of Labor.

III. Measures To Improve Borrowers' Understanding and Respect for the Loan Repayment Obligation

1. In cooperation with the lender and in compliance with law, including the Fair Debt Collection Practices Act, if applicable, contact each borrower with respect to whom the lender has requested preclaims assistance from the guarantee agency to urge the borrower to repay the loan and to emphasize the consequences of default listed in item III.5(a)(3)(ii), below, by means of telephone contacts and letters sent "Forwarding and Address Correction Requested."

2. In cooperation with the lender and in compliance with law, including the Fair Debt Collection Practices Act, if applicable, contact a borrower during the grace period in order to-

(i) Remind the borrower of the importance of the repayment obligation and of the consequences of default listed in item III.5(a)(3)(ii), below, by means of telephone contacts and letters sent "Forwarding and Address Correction Requested"; and

(ii) Update the institution's records regarding the borrower's address, telephone number, employer, and employer's address.

3. At the time of a borrower's admission to the institution, obtain information from the borrower regarding references and family members beyond those provided on the loan application, to enable the institution to provide the lender with a variety of ways to locate a borrower who later relocates without notifying the lender.

4. Require an enrollment representative or salesman to explain carefully to a prospective student that, except in the case of a loan made or originated by the institution, the student's dissatisfaction with, or nonreceipt of, the educational services being offered by the institution does not excuse the borrower from repayment of any Stafford or SLS loan made to the borrower for enrollment at the institution.

5. Conduct the following counseling activities in addition to those described in 34 CFR Part 682, Subpart F:

   (a) As part of the initial loan counseling provided to a Stafford or SLS borrower—

      (1) Provide information to the borrower regarding, and through the use of a written test and intensive additional counseling for those who fail the test, ensure the borrower's comprehension of, the terms and conditions of Stafford and SLS program loans, including—

         (i) The stated interest rate on the borrower's loans;

         (ii) The applicable grace period provided to the borrower and the approximate date the first installment payment will be due;

         (iii) A description of the charges imposed for failure of the borrower to pay all or part of an installment payment when due; and

(iv) A description of any charges that may be imposed as a consequence of default, such as liability for expenses reasonably incurred in attempts by the lender or guarantee agency to collect the loan, including attorney's fees;

(2) Explain the borrower's rights and responsibilities in the Stafford and SLS loan programs including—

(i) The borrower's responsibility to inform his or her lender immediately of any change of name, address, telephone number, or Social Security number;

(ii) The borrower's right to deferment, cancellation or postponement of repayment, and the procedures for obtaining those benefits;

(iii) The borrower's responsibility to contact his or her lender in a timely manner, before the due date of any payment he or she cannot make; and

(iv) The availability of forbearance under the circumstances and procedures described in 34 CFR Part 682;

(3) Provide to the borrower—

(i) (A) General information on the average indebtedness of student borrowers who have obtained Stafford or SLS program loans for attendance at that institution and the average amount of a required monthly payment based on that indebtedness; or

(B) The estimated balance owed by the borrower on Stafford and SLS loans, and the average amount of a required monthly payment based on that balance; and

(ii) Detailed information regarding the consequences of the failure to repay the loan, including a damaged credit rating for at least 7 years, loss of generous repayment schedule and deferment options, possible seizure of Federal and State income tax refunds due, exposure to civil suit, liability for collection costs, possible referral of the account to a collection agency, garnishment of wages if the borrower is a Federal employee, and loss of eligibility for further Federal Title IV student assistance.

(1) Provide the counseling and testing described in paragraph (a) for the initial loan counseling;

(2) Provide a sample loan repayment schedule based on the borrower's total loan indebtedness for attendance at that institution;

(3) Provide the name and address of the borrower's lender(s) according to the institution's records;

(4) Provide guidance on the preparation of correspondence to the borrower's lender(s) and completion of deferment forms; and

(c) Obtain information from the borrower regarding the borrower's address, the address of the borrower's next-of-kin, and the name and address of the borrower's expected employer.

6. Use available audio-visual materials, such as videos and films, to enhance the effectiveness of its initial and exit counseling.

IV. General

1. Conduct an annual comprehensive self-evaluation of its administration of the Title IV programs to identify institutional practices that should be modified to reduce defaults, and then implement those modifications.

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